Mortgage originators tend to sell their fixed-rate loans to secondary-market agencies, while holding adjustable-rate mortgages in their portfolios. As a result, secondary market activity generally drops off when adjustable-rate mortgages gain popularity.

This pattern appeared to hold through 1996. Consequently, although the holdings of the secondary market's two major players—the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac)—continued to rise, the rate at which they purchased loans declined somewhat over the past year. This pattern can also be seen in the secondary market's share of total mortgage originations, which fell over the first part of 1996, reaching a low of less than 20% of all originations in July. Although 1997 data are not yet available, one would expect secondary market activity to have picked up over the first few months of the year. Typically, consumers see rising mortgage rates as a sign of things to come, and attempt to lock in relatively favorable fixed-rate mortgages when rates start to climb.