

The US Mortgage Market

Structure, Rate Environment & Market Evolution

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Agenda

Five themes · 120 minutes

- 01** **Market Scale & Global Context**
The \$13.2 trillion colossus

 - 02** **Structure & Mechanics**
GSEs, originate-to-distribute & MBS

 - 03** **Rate Environment & The Lock-In Effect**
How rate history froze the market

 - 04** **Non-Bank Lender Dominance**
Structural shift in origination

 - 05** **US vs European Models**
Contrast with covered bond frameworks
-

Market Scale & Global Context

The US mortgage market is the largest single debt market in the world

\$13.2T

Outstanding Mortgage Debt

As of Q4 2025

~\$2.0T

Annual Origination Volume

2026 annualized

86M+

Active Mortgage Accounts

Owner-occupied

65.8%

Homeownership Rate

As of Q1 2026

Largest Debt Market Globally

Exceeds Japan's entire GDP

Substantially larger of all European residential markets combined

Approximately 70% of total US household debt

FixedRate Dominance

Over 90% carry 30-yr fixed rates — structurally unique vs. European variable markets

Creates distinct interest-rate risk dynamics for global investors

Government Footprint

75%+ of new originations through Fannie, Freddie & Ginnie

Federal government is the ultimate guarantor of systemic mortgage risk

Market Structure: The GSE Model

Originate-to-distribute—how the US mortgage pipeline works



Fannie Mae & Freddie Mac

Placed in federal conservatorship in 2008 and still under FHFA oversight. Purchase conforming loans ($\leq \$832,750$ in 2026) from originators, pool them into MBS, and provide a credit guarantee — but do not lend directly to consumers.

Ginnie Mae

A true US government agency within Housing and Urban Development HUD, guaranteeing MBS backed by FHA, VA & USDA loans. Carries the full faith and credit of the US Treasury — the closest US equivalent to a government-backed covered bond.

Conforming vs Non-Conforming

Conforming loans meet GSE size and credit standards and qualify for an agency guarantee. Jumbo and non-qualifying loans are either held on balance sheet or securitized through the private-label market.

The Agency MBS Market

The world's largest bond market outside of US Treasuries

How Agency MBS Works

PassThrough Structure

Principal and interest from thousands of pooled mortgages pass through monthly to MBS holders, net of servicing and guarantee fees. The investor receives the cash flow — the GSE absorbs the credit risk.

Prepayment Risk

Borrowers can refinance at any time with no penalty, creating [convexity risk](#) and unpredictable cash flows. Active duration management is essential for any MBS portfolio.

Credit Quality

Agency MBS carry no credit risk for investors. Fannie/Freddie guarantee timely payment, and Ginnie Mae is explicitly backed by the US government.

Primary risks are prepayment and interest rate, not default.

\$9.5T

Agency MBS outstanding

Fed, Fannie, Freddie, Ginnie combined

\$420 billion

Avg. Daily trading volume

SIFMA's Q1 2026

4.1%

Avg coupon on existing pool

Up from 3.5% as older low-rate pools runoff

Rate Environment

The most consequential structural shift in the US mortgage market in a generation



The LockIn Effect Explained

The Trap

Borrowers locked in at 2.6%–3% in 2020/21 ~78% of borrowers hold a rate below 6% Current rates ~6.2–6.5%—moving means hundreds more per month, permanently

Market Impact

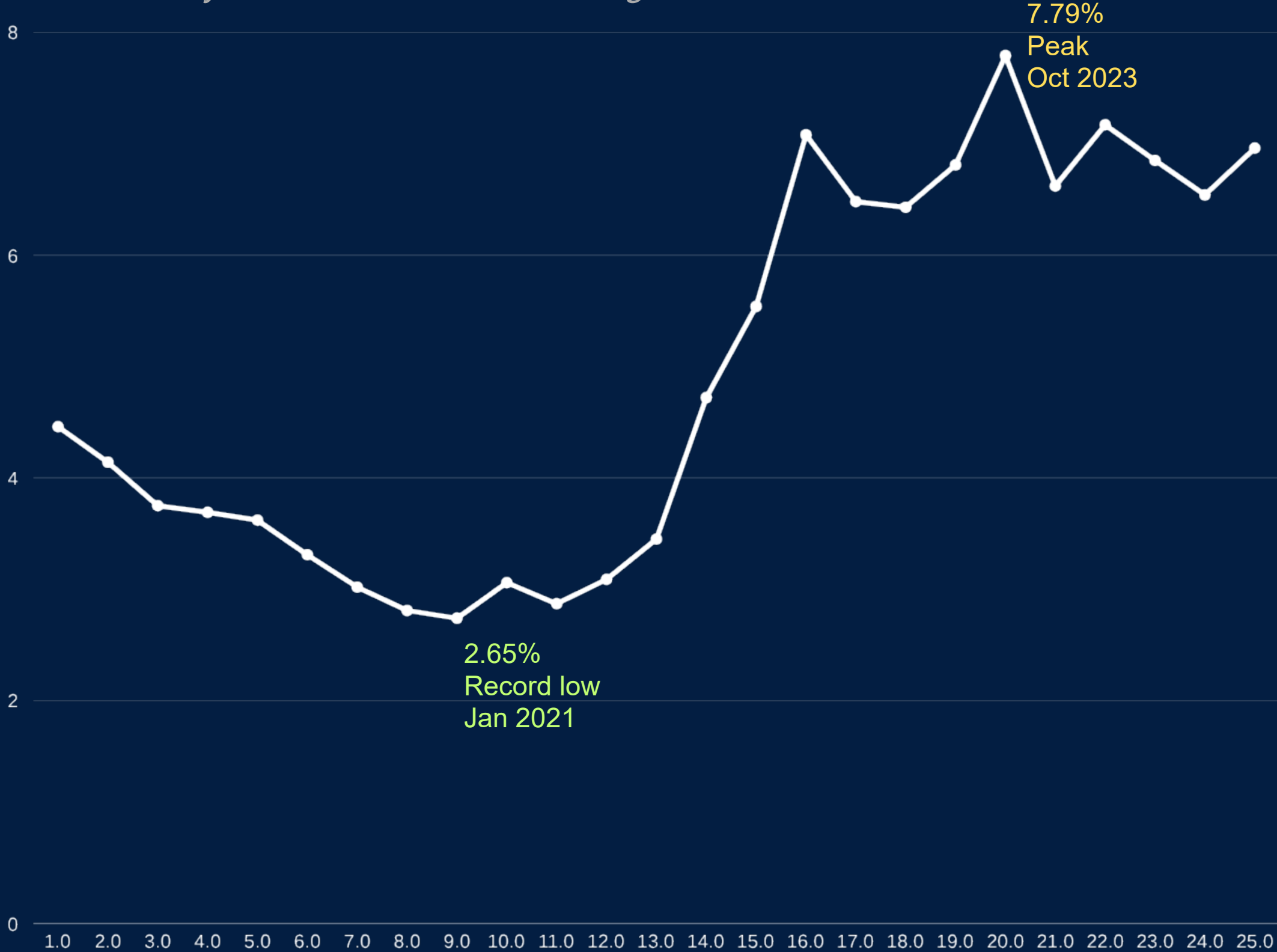
Slower prepayments extend MBS durations — disrupting hedging models. The Fed's ~\$2.1T MBS portfolio is slowly winding down, adding supply pressure.

Systemic Implications

Slower prepays extend MBS durations beyond historical norms — disrupting hedging models. Fed's ~\$2.1T MBS portfolio winding down slowly, adding technical supply pressure to the market.

The Lock-In Effect

Rate history has frozen the US housing market



78%

of borrowers locked in below 6%

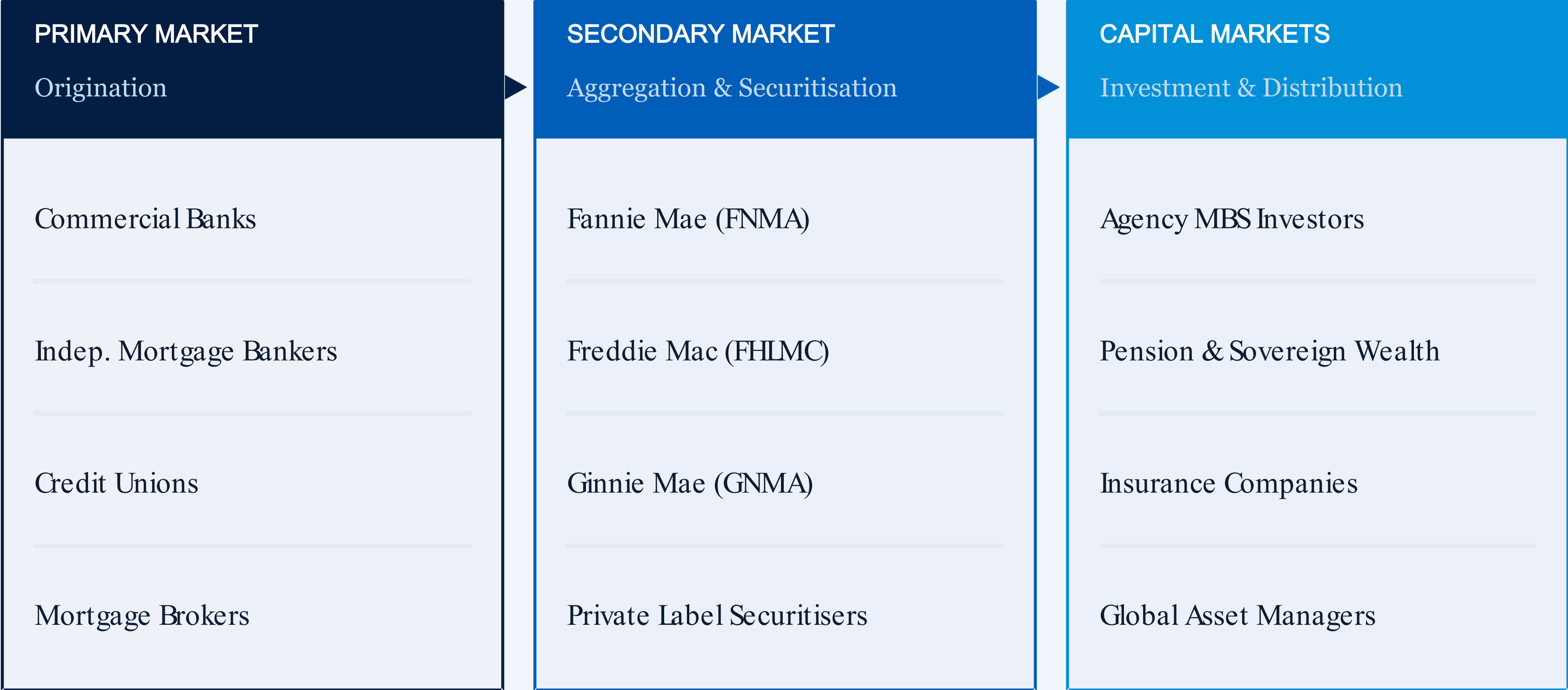
~5M

fewer home sales annually vs trend

\$500+

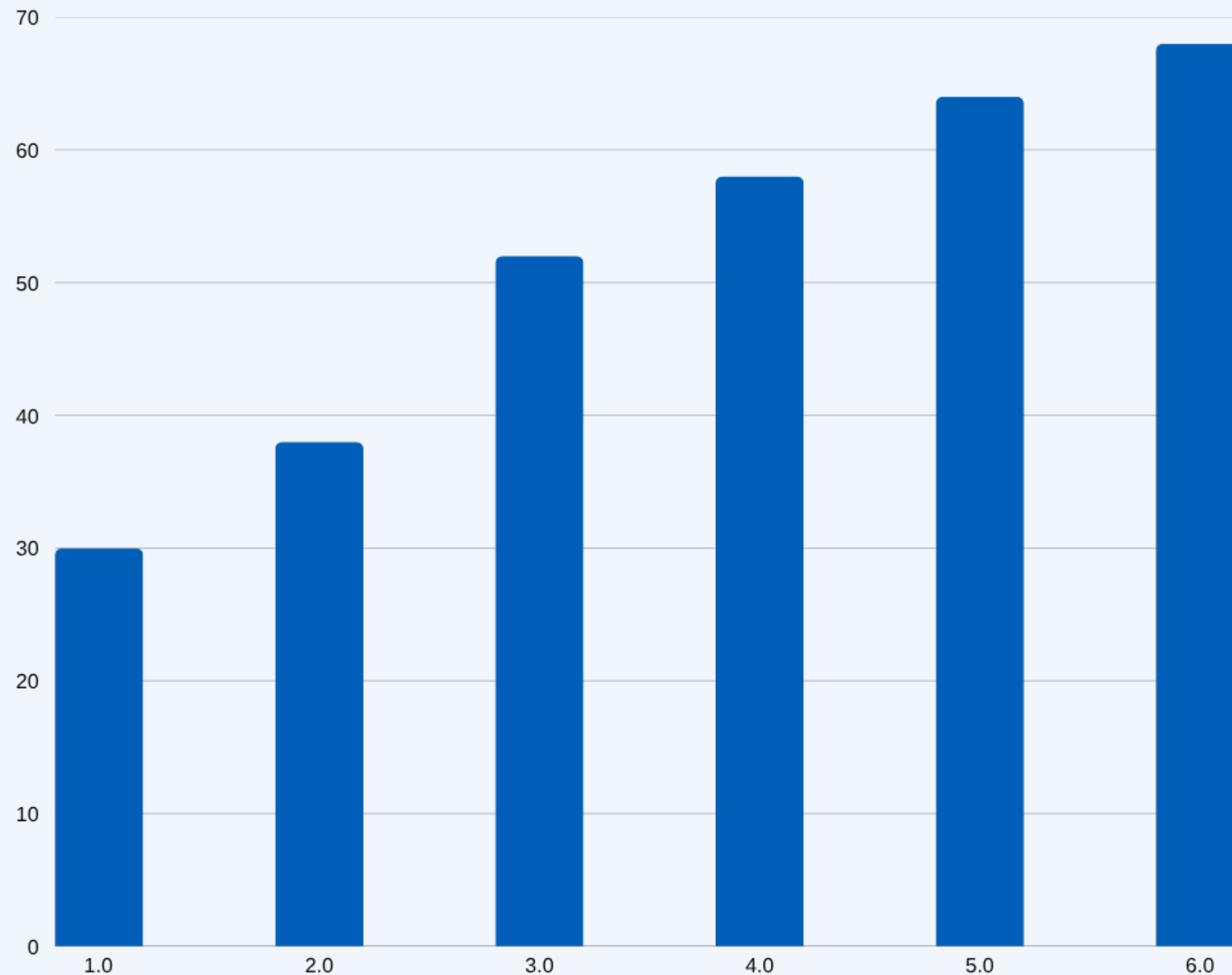
extra monthly cost to move and re-mortgage

A Tri-Level Ecosystem



Non-Bank Lender Dominance

A structural shift two decades in the making now the defining feature of US origination



Why NonBanks Won

Post-2008 Basel III & Dodd-Frank rules made bank origination costly. Non-banks — without deposit-funding obligations — focused purely on origination efficiency.

Who They Are

UWM, Rocket, loanDepot, PennyMac & Freedom Mortgage dominate. Originate → sell to GSEs → retain MSRs. Distinct model, different risk profile.

Regulatory Implications

No FDIC insurance. No Fed liquidity access. A 'warehouse line' funding cliff in stress — a systemic vulnerability flagged but not yet resolved.

US vs European Mortgage Finance Models

Structural contrasts for a covered bond audience

Feature	US Agency MBS Model	European Covered Bond Model
Issuer Type	● Non-bank originators + GSEs	Regulated credit institutions (banks)
Credit Guarantee	● GSE / Government agency wrap	Dual recourse: issuer + cover pool
Investor Recourse	To securitization vehicle / guarantee	To issuing bank AND ring-fenced assets
Prepayment Risk	● Borne by investor (pass-through)	Generally absent or limited by structure
Rate Type	● 30-year fixed dominant (>90%)	Variable / short-fix common in many markets
Regulatory Framework	FHFA, SEC, CFPB oversight	ECBC Label, EU Covered Bond Directive (2022)
Liquidity	● Deep TBA market, Fed-eligible	ECB repo-eligible, HQLA Level 1
Transparency	Loan-level data via Fannie/Freddie	Cover pool data via national label standards

Outlook: Key Themes Shaping 2025–2026

Structural forces that will define the next cycle

01 Rate Normalization & Unlock

Rates need to fall to 5.5–6.0% to unlock pent-up supply. Every 50bps drop is estimated to free 1–2M households — triggering refinances and restoring volume.

02 GSE Reform

Growing political appetite for reform could reshape the government guarantee — with major implications for MBS spreads and global investor demand.

03 Non-Bank Regulation

Tighter capital and liquidity rules could compress margins and consolidate the originator landscape.

04 Technology & AI in Origination

Non-banks leading this shift may widen their advantage over traditional banks.

Key Takeaways

Scale The US mortgage market is the world's largest debt market — \$13.2T outstanding, government-backed to its core.

Structure The GSE model puts credit risk with the federal government — not the lender. A fundamental departure from covered bond logic.

LockIn Post-2022 rate shock has created an unprecedented freeze in housing supply. Resolution depends on a sustained rate decline that remains elusive.

Non-Banks Two-thirds of US origination now flows through non-bank lenders — well-positioned in good times, structurally vulnerable in liquidity stress.

Convergence US and European frameworks share the goal of safe, liquid mortgage finance — but diverge sharply on risk allocation, rate structure, and institutional anchor.

Questions & Discussion

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