GSEs securitize and sell MBS to investors, while retaining a portion for the investment portfolio. Investors (banks, foreign investors, investment funds) Negative convexity hedged with treasuries, interest rate swaps, swaptions, other derivatives central banks, investment/pension funds, banks, money market funds Banks GSEs issue debt securities to investors to finance loan purchases Fannie Mae/Freddie Mac

Borrower

Bank/lender originates mortgage loans

Lender sells mortgages to the GSEs that meet their underwriting standards

Mortgages

Source: IMF staff.
Note: MBS = mortgage-backed security; GSE = government-sponsored enterprise.