

From the Editor

## Three Ways, No Four, to Find Peace of Mind

In the spirit of holiday wishes, the staff of *SMM* hopes that our reading audience will find "Peace of Mind" as the new millennium gets under way. We trust that there's more than enough serenity to go around among our 8,000-plus readers. If so, we gratefully will claim the leftovers for ourselves.

Peace of mind, mind you, is a little different from the season's traditional evocation, "Peace on Earth." Both are laudable in their own right, but achieving the former strikes us as more attainable than waiting for the world's nations to lay down arms. Although we have not figured out how to use *SMM* to advance international disarmament, the three articles in this issue do suggest ways to secure some personal measure of good will.

In the cover article, "Credit Derivatives: Hedging Closer to Happiness," authors Frank Vetrano and Bill Lyons examine the first sustained attempt by the capital markets to give corporate risk managers the kind of peace of mind that previously has eluded them. The evolving financial instrument, the pair concludes, could go a long way towards minimizing the quirker [business risks](#) presented by natural disaster, loan default, [counterparty](#) failure and the like. The authors themselves are uniquely positioned to write about credit derivatives. Frank headed up the role Freddie Mac played in Wall Street's first credit derivative dedicated to managing mortgage-default risk that was issued nearly 18 months ago. Bill, who also had a hand in that successful deal, now heads up Freddie Mac's capital markets group, which is analyzing the application of credit derivatives to the company's business lines.

If corporate risk managers sweat bullets at times, imagine how an individual mortgage borrower must feel upon falling so far behind on loan payments that loss of the family home becomes a real possibility. Enter a new ally, Freddie Mac's EarlyIndicator technology. The team of Larry Cordell and Jericho Trianna explains in their article, "Getting to Know Borrowers Again: Who Pays, Who Delays and Who Strays," page 8, how the borrower behavioral-scoring system reduces the incidence of foreclosure.

Finally, financial security can afford tremendous peace

Freddie Mac Loan Limits			
	1998	1999	2000
First Mortgage (One Family)	\$227,150	\$240,000	\$252,700
Second Mortgage (1-4 Families)	\$113,575	\$120,000	\$126,350

Note: Annual limit is 50 percent higher in Hawaii, Alaska, Guam and the Virgin Islands.  
Source: Freddie Mac

of mind to many. With a record 67 percent of American families owning their homes, house-price appreciation offers a virtually effortless way to increase the family fortune. The good news, as served up by Freddie Mac senior economist Amy Crews Cutts, is this: For the first time in a quarter century, every state and every region in the country is experiencing home-price growth that, with rare exception, outdistances inflation. See "Stellar House-Price Gains Break New Economic Ground," page 3.

Those three ways to achieve peace of mind are found within this *SMM*, but stop the presses—here's a fourth. Come January, Freddie Mac's purchase limit for single-family, first-lien mortgages rises to \$252,700, up 5.3 percent from 1999's \$240,000 level, as noted in the table above. Likewise, the maximum size for a [conforming](#) second mortgage climbs to \$126,350 in 2000.

The 5.3-percent increase is particularly good news for an estimated 150,000 homebuying families who stand to gain \$31,700 worth of peace of mind. That represents the savings available to those households freed from paying the extra freight on a typical 30-year, fixed-rate [jumbo mortgage](#). Historically, interest rates in the [nonconforming](#) jumbo market have run one-half of a percentage point above those for conforming loans.

Families eligible for relief from jumbo-priced financing account for a small but important part of Freddie Mac's business. During the first 10 months of 1999, 2 percent of Freddie Mac purchases fell at this year's limits.

So no matter where you find solace for your suffering psyche, here's hoping that this improved state of mind lasts for a long, long time. Cheers!



H. Jane Lehman, Editor