# *Secondary Marketing Resources*

## ***Ways to Improve Secondary Marketing Income***

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# Agenda

- Expanding Secondary Income Overview
- Ways to Increase Your Income
  - Transition to Mandatory Commitments
  - Move to Using Multiple Investors
  - Monitor Fall Out Through Better Reporting
- Conclusion

# Overview – Expanding Income About More Than Just Money

- Rising rates mean tighter margins
  - Even steady rates will result in less volume
  - As margins reduce, more income will drive more volume
- Results in wider array of competitive mortgage lending products
  - More members needs met
- Competitiveness will matter in the future
  - Reputation as a lender will matter
  - Attracting staff will critically rely on competitiveness

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# Overview – Options to Expand Income

- Better prices
  - Investors improve buy price
- Better investors
  - Same products but better execution
- Better hedging
  - Manage hedge ratios and fall out assumptions
- Better internal procedures
  - Income affected by operational processes

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# Transition to Mandatory Delivery

- Mandatory delivery increases income
  - Pricing significantly better than best efforts
  - Margins can increase if outside of market standard
  - Lowest best efforts margins reflect consistent fall out, and low risk in switch to mandatory
- Minimal risk in mandatory commitments
  - Most CU pipelines have predictable closing rates
  - Market interest rate changes do not materially affect fall out rate
- Greater flexibility in multiple investors
  - Best efforts eliminates option to switch

# Mandatory Delivery Strategies

- Determine Fall Out Assumption
  - Usually 20% fall out is appropriate starting position
    - Range of fall out assumptions narrow for credit unions (15% to 25%)
  - Monitoring fall out will  be important component
- Implementation Alternatives
  - Depending on volume, can take commitments for 80% of locks daily
  - Smaller lenders can take loan-by-loan commitments on 4 out of 5 locks

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# Mandatory Delivery Income

- Income gains can be significant
  - Best efforts to mandatory spreads can be 25 – 60 bps
  - Assuming originations of $10 M with 20% fall out implies 25 bps on $8 M, or $20,000 per month
- Risk is difference between anticipated/actual fall out
  - Monitoring and adjusting coverage key to maximizing
  - Fall out variance impact must be considered relative to income
    - $500,000 in extra loans close (85% pull through)
    - One point price change implies $5,000 loss
    - But need to compare to $20,000 gain
  - Pair offs are not a risk – but are an aspect of mandatory deliver

# Multiple Investors

- Use driven by volume increases
  - Most of the benefit is in niche type products
  - Requires sufficient volume to warrant managing extra investors
- Pricing differs between investors
  - For products, i.e. RD loans, 20 year fixed
  - For loan characteristics, i.e. MPF loans, high balance
- Product requirements may vary
  - Delivery/underwriting requirements
  - Jumbo conforming/high balance, low balance loans

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# Multiple Investors Strategies

- Implement process to track daily pricing
  - Add new investors to access pricing
    - Monthly volume may limit number of investors
  - Identify pricing differentials regularly
    - Best analysis occurs over time as pricing changes
  - Review pricing benefits to delivery/product rules
- Specific examples of use of multiple investors
  - High balance loans (Freddie, Fannie, FHLB)
  - RD loans (Freddie, Fannie)
  - ARM loans (Freddie, Fannie)
  - Low balance loans (Fannie)

# Multiple Investors Income

- Additional monthly income can be significant
  - High balance loans - $2 M to Freddie implies $30,000 income increase
  - RD loans - $1 M to Fannie implies $6,000 income increase
  - ARM loans - $1 M to Freddie implies $15,000 income increase
  - Low balance loans - $2 M to Fannie implies $10,000 increase increase
- Issues associated with using multiple investors
  - Matching AUS findings with investor
    - Expertise to underwrite to ultimate investor
  - Enough volume for multiple investors

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# Fall Out Management

- Improve use of mandatory commitments through better reporting
  - Issue is not minimization of fall out, but consistency of fall out
- Process change has minimal impact on day to day operations
  - Does not require production/delivery adjustments
- Key to effective use of multiple investors
  - Fall out expertise makes switching loans easier

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# Fall Out Management Strategy

- Reporting regularly is the most important aspect
  - Both historical data and up to date information are critical
- Three reporting strategies to monitor fall out
  - Instant report – a monthly breakdown of fall out versus lock loans with a 12 month rolling average
  - Historical reporting – monthly/quarterly report on discreet set of loans identifying loan characteristics and fall out results
  - Financial reporting – cost associated with canceled locks versus income from additional coverage for closed loans

# Summary

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