

WHITE PAPER

ENTERPRISE SECONDARY MARKETING SOLUTIONS

AUTOMATING CONTENT TO COMMITMENT
AND EVERYTHING IN BETWEEN

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A NEW SOLUTION TO AN OLD PROBLEM

Secondary marketing is a mission-critical function central to the mortgage origination process. For purposes of this paper, secondary marketing encompasses pricing, locking, hedging, and committing mortgage loans. Secondary marketing exists within all mortgage lending organizations, whether loans are sold on a best effort or mandatory basis. It is a function that deals with key strategic issues including product sourcing, pricing and risk management, while also handling a host of operational responsibilities such as lock desk and commitment management.

Historically, the technology used to support secondary marketing was a patchwork of systems and manual processes. Today, the introduction of Enterprise Secondary Marketing Solutions has enabled mortgage originators to automate the entire secondary marketing function, from content to commitment, using a single, unified technology platform. This White Paper is intended to familiarize originators with the capabilities native to an Enterprise Secondary Marketing Solution, and the considerable benefits delivered by this new class of systems.

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SYSTEM OVERVIEW

An Enterprise Secondary Marketing Solution includes a broad array of functions that can be grouped into several categories, each representing a core element of the secondary marketing process:

- Content
- Eligibility and Pricing
- Locking
- Pipeline Risk
- Hedging
- Committing

Read on for an abstract of each system category, along with integration highlights and the analytics capabilities of leading solutions.



Content

Loan buyers, including Government Sponsored Entities (GSEs) and Correspondent Lenders, maintain unique price grids complete with loan-level price adjustments. Price grids have grown in complexity over the past decade, making it increasingly risky for originators to manually obtain and maintain pricing data. Use of an Enterprise Secondary Marketing Solution eliminates manual processes, replacing them with real-time, automated ingestion of pricing data.

Errors are reduced as pricing is updated continuously throughout the day which leads to a more efficient operation and bottom line improvements. Because content is fully automated for a wide array of investors, originators using an Enterprise Secondary Marketing Solution can quickly activate pricing for new investor relationships. It is worth noting that the most advanced systems enable originators to self-configure portfolio products by adding overlays to investor guidelines or by blending the best pricing available from multiple investors.

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Eligibility and Pricing

Determining product eligibility and pricing options quickly and accurately at point-of-sale is vital to the lending process and the applicant experience. Given the complexity of mortgage loan pricing and the need to allow for compensation, margins and overhead, automating the eligibility and pricing process significantly impacts operational and loan officer efficiency. An Enterprise Secondary Marketing Solution not only renders real-time loan quotes by instantly evaluating up-to-date investor content, but also delivers best execution analyses showing all eligible products ranked by price. Some systems display ineligible loans with reasons for ineligibility, saving loan officers time and effort. The most advanced systems have features to control and track pricing exceptions - a capability that is helpful during compliance reviews - as well as mortgage insurance integration which enables borrowers to obtain accurate total loan cost information.



Locking

Inefficiency is not uncommon in the lock desk area. More often than not, analyzing, adjusting and approving lock requests is a manual process and communication between the originator and lock desk can be disjointed and inconsistent.

Fortunately, Enterprise Secondary Marketing Solutions have extensive capabilities that automate the locking process. Loan originators can initiate rate lock requests and receive instant lock confirmations through a

highly configurable, auto-accept process. Originators realize substantial efficiencies and lock desk staff capacity is expanded. The best systems also automate the complex and time-consuming change request function. By combining archived historical prices with a system-configured lock policy, change requests can be processed automatically, enabling lock desk personnel to spend more time handling exceptions. Automating the lock process also helps reduce errors and ensures a pipeline position that is always current.

Home grown, in-house pipeline management systems often rely too heavily on key personnel and require manual data updates. In an Enterprise Secondary Marketing Solution, development and maintenance are the vendor's responsibility.

Pipeline Risk

Today, Microsoft® Excel is perhaps the most commonly used system for tracking pipeline positions, despite what some believe to be the many deficiencies associated with such an approach. Home grown, in-house pipeline management systems often rely too heavily on key personnel and require manual data updates. In an Enterprise Secondary Marketing Solution, development and maintenance are the vendor's responsibility. Pipeline positions are updated with real-time market and lock data feeds, providing secondary marketing managers with continuous visibility into risk positions. The most robust systems have strong error checking routines, identify eligibility problems as loan characteristics change, and leverage native investor content to generate precise, mark-to-market reports for managers, auditors and regulatory authorities. Of course, an important part of pipeline risk measurement is understanding fall-out, so a system must be evaluated for its ability to apply fall-out assumptions and help estimate fall-out rates by evaluating historical data.



Hedging

Managing pipeline risk through hedging - whether using cash commitments or TBA trades - is central to nearly every secondary marketing department, so an Enterprise Secondary Marketing Solution must provide the data and analytical tools to manage risk effectively. Such systems enable risk managers to perform “what-if” analyses to understand how various actions affect their risk position, as well as model the P&L impact of market changes. Because positions and market values are updated continuously, potential hedging actions may be evaluated and positions modified at any time, allowing the secondary desk to react promptly to incoming locks or market changes. Features found in advanced systems include basis risk management, allowances for servicing value fluctuations, and intelligent trade blotters that enable traders to quickly model coverage. For those who sell primarily to GSEs, it is imperative to leverage a system that supports note rate hedging. This functionality is required to properly handle hedging with commitments denominated in note rates, as is the case with Fannie Mae and Freddie Mac cash selling.

Committing

As loans become available for sale, originators using Enterprise Secondary Marketing Solutions benefit greatly from best execution capabilities and commitment automation. With best execution analysis, secondary marketing personnel can instantly determine the best investor price for every loan available for sale, and consider all potential executions to maximize profitability. For originators that access the popular bulk bid market execution, automation helps streamline an otherwise highly manual process. If system-to-system integration exists with the investor, committing can be initiated from within the Enterprise Secondary Marketing Solution once an execution is selected, resulting in substantial time and cost savings. Commitment automation eliminates the need to reconcile two systems, reduces error rates and ultimately risk levels by enabling the offsetting of incoming locks more quickly.



SUPPORTING CAPABILITIES

To fully leverage the capabilities of an Enterprise Secondary Marketing Solution, two supporting capabilities are essential: a deep integration with other key systems and advanced business intelligence tools.


Integration and APIs

Tight integration should exist with key technical solutions used by the originator, including loan origination and point-of-sale systems, CRM and mobile platforms, and lead generation sites. An Enterprise Secondary Marketing Solution connected with a wide array of vendors gives originators the flexibility to change business partners as their strategy evolves. In addition, key system functions such as price quoting and locking should be available via Application Programming Interfaces (APIs) so that originators can - if they choose - build custom solutions leveraging the data and functionality resident in the Enterprise Secondary Marketing Solution. For example, originators are increasingly choosing to display price data on their websites, something that is reasonably easy to accomplish with a well-designed API. More originators wish to control the end-user experience, and APIs are the building blocks that make it possible.

By providing access to real-time production, performance and competitive data, the business intelligence tools found in Enterprise Secondary Marketing Solutions are becoming mission critical for successful secondary marketing executives.

Business Intelligence

Secondary marketing managers are required to make quick, high-impact decisions but often lack access to data and analytical tools necessary to operate effectively. Without readily available lock, change request, and pricing exception data, managers are at a disadvantage. To address this issue, the most robust Enterprise Secondary Marketing Solutions now offer impressive business intelligence capabilities, providing instant access to broad data sets along with analytical tools that help users understand and evaluate opportunities.



These systems also provide insight on competitive positioning and market share to more quickly evaluate pricing strategies. By providing access to real-time production, performance and competitive data, the business intelligence tools found in Enterprise Secondary Marketing Solutions are becoming mission critical for successful secondary marketing executives.

Conclusion

Enterprise Secondary Marketing Solutions emerged recently, as innovative technology vendors developed the full range of capabilities required to offer end-to-end secondary marketing automation. Rather than using a patchwork of systems and manual processes, top lending executives can now automate the entire secondary marketing process, from content management to commitment, with one comprehensive solution. Early adopters report significant efficiency and profitability improvements, all imperative in the compliance-critical, competitive environment in which we operate today.

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ABOUT THE AUTHOR

Scott Happ has thirty years of experience in financial services and mortgage lending technology. He founded Mortgagebot in 1997 and built the company into a nationally recognized SaaS solutions provider, selling the company to D+H in 2011. In 2016, Scott teamed with GTCR, a leading private equity firm, to acquire Optimal Blue, where he serves as CEO. Scott has a Bachelor's degree in economics from the University of Wisconsin.

ABOUT OPTIMAL BLUE

Optimal Blue operates the mortgage industry's Digital Marketplace, connecting originators, investors, and providers with a single, unified technology and value-added services platform. Optimal Blue's Digital Marketplace enables originators to automate their entire secondary marketing operation from content through commitment, and enables investors and leading providers to accelerate the loan origination process by leveraging automated data exchange, streamlined value delivery, robust innovations, and actionable business intelligence. Together, these originators, investors, and providers form a unique, multi-sided marketplace touching one of every four mortgage loans closed nationally each year.