5 STEPS FOR IMPROVING SECONDARY MARKETING PROFITABILITY

WHITE PAPER

OPTIMALBLUE
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Mortgage bankers are constantly thinking through strategies to drive profitability, whether that's growth in top-line revenue or added efficiencies. But with many dynamics largely out of their control such as regulatory requirements, volatile origination markets and labor force challenges, hitting profitability targets can seem daunting and complex. A useful exercise for mortgage bankers is to evaluate the entire operation, looking for opportunities to uncover profitability in areas of the process that can be controlled.

Profitability is heavily influenced by secondary marketing functions and processes. The overall approach a lender takes to pricing, locking, hedging, loan sales, and more has a significant impact on the bottom line. Lenders should evaluate their current approach in secondary marketing, understand alternatives, and make data-driven decisions to uncover the strategies that will truly drive profitability.

Let's step through several processes and responsibilities of the secondary marketing function while highlighting five specific areas that contribute to optimizing your operation. For each area, we'll uncover how profitability can be positively impacted through process efficiency or revenue growth strategies. Then we'll conclude with a simple step-by-step action plan for your team to consider as you reevaluate how to improve the profitability of your operation.

1 Increase access to a broad range of loan programs to serve more borrowers.

Acquisition costs remain a significant expense in today's mortgage business. So, spending money to onboard originators, solicit borrowers, and assess their situation only to discover you don't have a loan program that fits—well that's not a recipe for profitability. If your origination team members are going to be successful, they must have access to a wide array of investors whose loan programs fit a variety of borrower scenarios including jumbo and expanded credit investors. Your product, pricing and eligibility (PPE) engine must enable you to search and compare the right products instantly, explain why some products may not be eligible, and facilitate a discussion with your borrower to show the steps that could be taken to make a loan program viable. It all comes down to delivering the best execution across all investor products—in real time.

2 Confidently deliver a competitive, profitable price.

In our on-demand, search-anything-instantly world, competitive pricing is critical. True, some borrowers will pay for an amazing experience, but they expect a competitive rate. So, it's important for lenders to understand their marketplace and offer pricing that's balanced with profitability—all while constructing a pricing strategy that isn't so aggressive that money is left on the table.

Market pricing transparency for different types of loans or credit characteristics in your specific geographic region is a key ingredient to a sound pricing strategy. Lenders should acquire tools that provide pricing intelligence in their market to help determine the pricing they'll offer. Keep in mind that many pricing intelligence tools simply collect rate data through lender surveys. But that's a manual, imprecise and inefficient process; survey data is not actual pricing available that day in the market. To maximize competitiveness, lenders should seek pricing transparency solutions that deliver flexible, real-time analytics for price-setting strategies and nearly real-time pricing data to assess those strategies and enable faster, better pricing decisions.

When lenders have accurate data to set a competitive pricing strategy, they also need flexible tools to manage margins granularly. This is why a robust PPE is rapidly becoming a necessity—not just an option. Lenders need tools that enable easy margin management whether applying markups, or other adjustments down to the branch, lender and user level. Ease of managing margins is also a consideration as some PPEs allow for updates via API or file import. In addition, visibility into profitability reporting facilitates clear communication with the finance team and will help you run a stronger business.

3 Rely on automation for process efficiency, speed and accuracy.

Process automation is all about reducing unnecessary steps and manual touchpoints that slow your business down. In the process-heavy mortgage business, leaders are smart to periodically examine their enterprise to ensure bottlenecks are eliminated. Let's take a look at two examples that are easy to implement and provide significant returns.

First, a traditional lock desk is a significant portion of the overall expense for mortgage lenders. Historically reliant on manual processes, much of it can be automated so your team can move to other, higher-value work. Consider the time savings of automatically locking the loan, making lock changes and extensions, granting exceptions and more. Such automation helps configured policies be strictly followed, and each scenario is treated more consistently. Lenders that move to lock desk automation wonder why they waited so long to reduce the expense, improve the process, and worry less about compliance.

Second, mortgage insurance (MI) is a key product that helps thousands of borrowers achieve the homeownership dream. As many lenders will attest, the time and effort required to price MI can be onerous. While the extra steps ensure the borrower is getting the best offer, the entire process takes time that cannot be recovered. With the right tools, lenders can enter data into the LOS once, confirm best pricing execution from their PPE, retrieve pricing from each of their MI partners and compare it easily.

Lenders and their support teams still provide the very best for the borrower but without the manual work that takes added effort and consumes limited resources.

4 Consider the switch from best efforts to mandatory—it's not as daunting as you may think.

Delivering on a best-efforts basis is considered a straightforward, conservative strategy that largely eliminates interest-rate risk. Of course, in exchange for transferring interest rate risk to the investor via best-efforts delivery, the pricing investors offer for loans is naturally lower. So, when considering new paths to profitability in a mortgage operation, shifting to mandatory delivery should be considered. The pricing spread lenders can expect when delivering mandatory instead of best efforts ranges generally from 20 to 40 BPS. Given the move to mandatory delivery would require hedging, these risks need to be managed by a team with hedging expertise. In many cases, this skill set may not be currently present within your organization. Therefore, outsourcing to an experienced hedge advisory firm is recommended.

The hedge advisor will help model risks, hedge your locked pipeline and sell your loans. Leading hedge providers will offer a seamless experience where the PPE is integrated fully with the hedge platform as well as most leading loan origination systems. That means locks made in the pricing engine and locked pipeline data from the LOS flow directly into the hedge pipeline so the position is updated. The best hedge platforms are transparent so you can see exactly what your hedge advisor is doing in real time. In essence, you can learn the processes, gain confidence, and take over that work—or parts of it—as your knowledge base grows. For lenders seeking greater profitability from their mortgage business, it's clear that a well-supported mandatory delivery strategy is the next logical step—one to be embraced, rather than feared.

5 Demand an integrated, enterprise-level secondary marketing solution.

The mortgage industry is experiencing digitization at every level as borrowers—and smart originators—continue to demand solutions that reflect their online lifestyle. It's a positive change that has resulted in a wide range of innovative technology solutions that can streamline various parts of the process. That said, lenders should be mindful of implementing point solutions that solve specific pain points. While one problem area may be solved, the growing tech stack may become harder to integrate, manage and deploy. Lenders should not accept processes requiring re-keying data or requiring "stare-and-compare" work that has no value. Consider a provider that addresses several critical opportunities with a single, integrated solution that can solve immediate pain points and scale as your business grows.

Much like the digital devices in every pocket, lenders should align with technology vendors committed to open platforms that enable connections with best-of-breed solutions. Think of the mortgage platform as the phone in your pocket, equipped with apps that streamline your work and personal life. Expect such platforms to offer a rich set of robust APIs that streamline integrations. After all, technology should be working for you, not causing more work.

It's time to uncover profitability that's hiding in these five secondary marketing areas of your operation. Below are simple yet actionable steps business leaders can take to identify opportunities, with the support of leading experts in the mortgage technology space.

Key Considerations:

- **Market Access**
  Discuss your lead-to-application rates and application-to-close rates with your originators. Analyze the loans that did not close. What portion of that fallout may have been avoided through ready access to more loan options? Are there steps your team is taking to get access to new and different loan programs, and could a single, central tool simplify the way they work?

- **Competitive Intelligence**
  Think about how you assess the competitiveness of your pricing strategies today. Do you rely simply on win rates and anecdotal feedback from your originators? Now think about whether you're comfortable competing with others who have real-time access to the actual pricing on loans being locked or offered in your market. Does that make you feel like you are trying to compete with inferior tools? Optimal Blue's Competitive Analytics or Originator Pricing Insight tools can help you build profitable pricing strategies.

- **Process Automation**
  Talk to your team and ensure you have a clear view of the current state of locking processes, lock management, concessions and extensions. How much of that time and effort adds value, and would automation enable your team to focus on other tasks? For many, automation has made sense and they've never looked back.

- **Delivery Strategy**
  Make sure you have a solid understanding of the basics of best efforts versus mandatory delivery, and why it can boost profitability. If you already deliver on a mandatory basis, are you using market-leading analytics to optimize your delivery strategy? Different strategies should be evaluated to fully optimize your loan pools for profitability.

- **Overall Tech Stack**
  With originations declining from historic highs, now might be the right time to revisit your tech stack. As the industry moves toward more digitization, are you evolving your organization to remain relevant? Do you have an integrated industry-leading solution that covers multiple, critical parts of your business? Are you deploying point solutions that must be individually managed, contracted, maintained, and integrated? See how ROI can be improved by moving to a fully integrated platform.