

Pipeline Hedging Strategies: Avoiding “Whipsaw”

Dean Brown, CEO
Mortgage Capital Management

Ron Kiuttu, Vice President of Finance
Members Mortgage Services, LLC

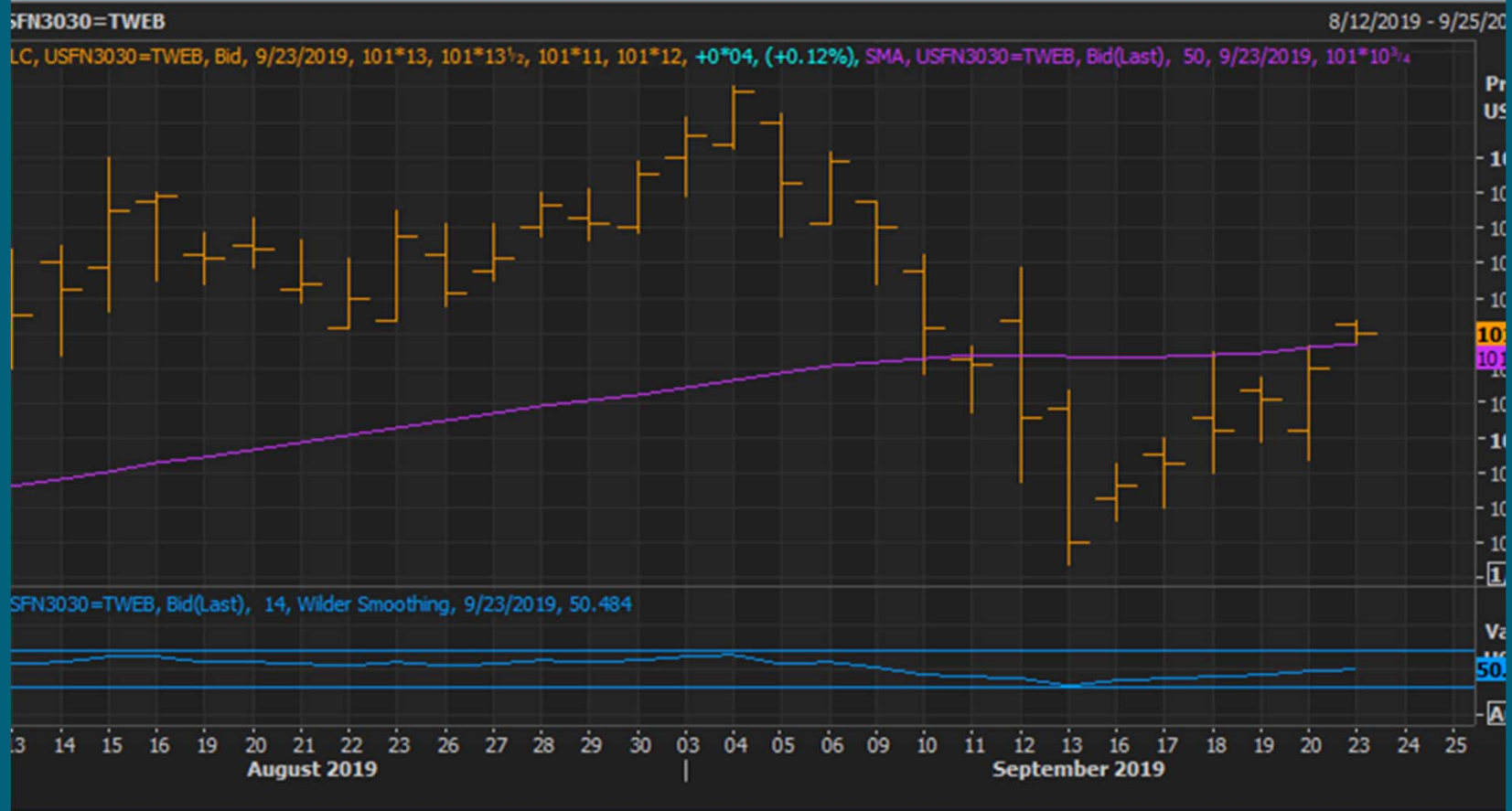
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Why get Whipsawed?

- What does it mean to be whipsawed by the market?
- What options do I have to avoid being whipsawed?
- Why use 10 yr TNote options to hedge a Mortgage Pipeline?
- Has your use of options helped maintain or increase your margins in the past?
- Do you need options if your pipeline is not sensitive to market movement?
- Has fallout volatility increased with the adoption of technology and the ease with which customers can apply for a mortgage?
- Is it true nobody would need to hedge if the market was flat?
- Why bet your margin and performance by not using options and modelling your pipeline's closing rates in response to market movement?
- Have renegotiations and increased fallout sensitivity increased over the last year?

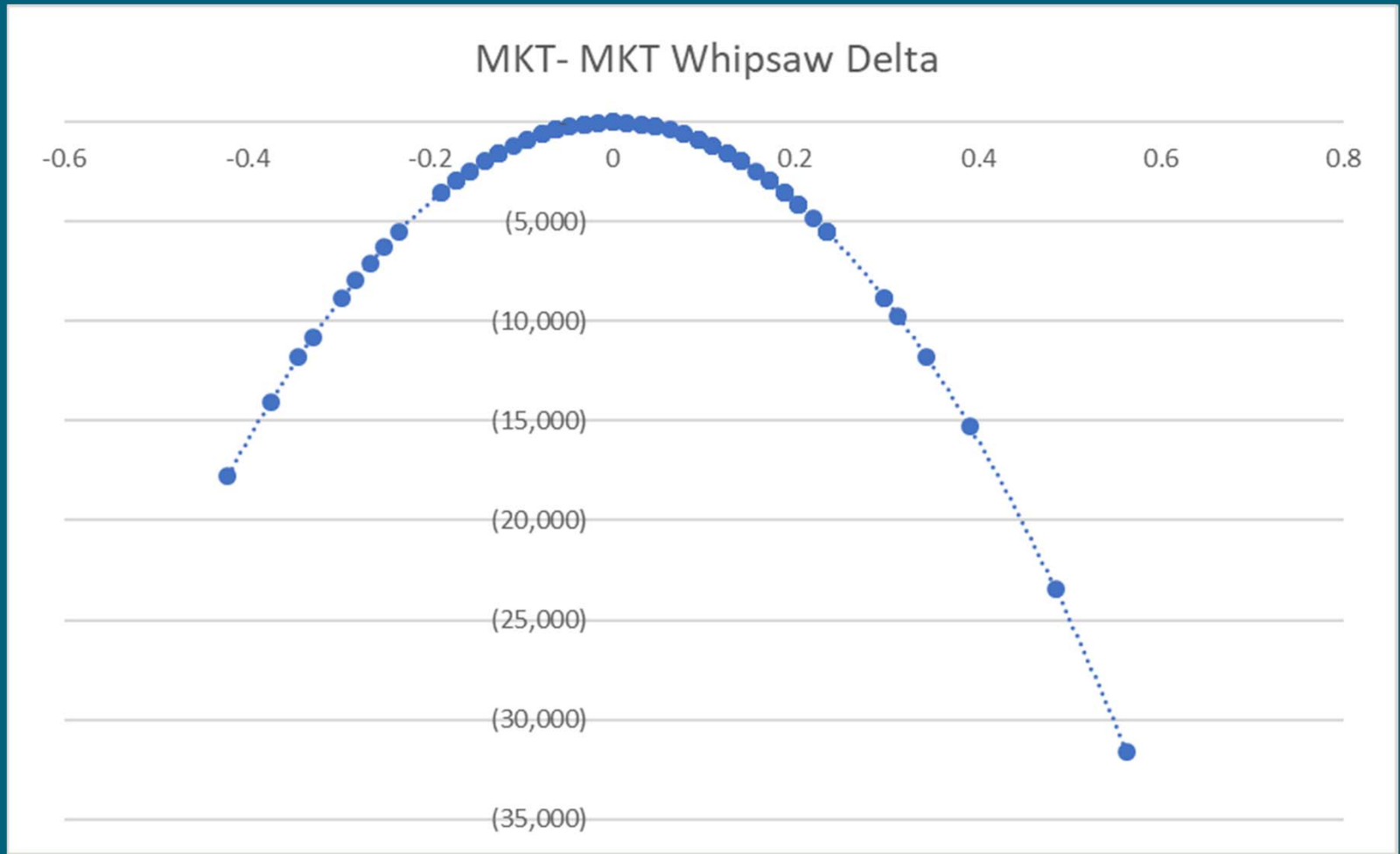
Recent Market Action



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Whipsaw Demostration							
UMBS 3.5 Coupon Pipeline					125,000,000		
Date	UMBS3.5 PRICE	MKT Delta	Closing Delta	Closing %	Exposure	MKT- MKT Delta	Cummulative Cost
2/21/2019	100.0938			80.00%	100,000,000		
2/22/2019	100.3281	0.234375	-1.88%	78.13%	97,656,250	(5,493)	(5,493)
...							
8/9/2019	101.5	-0.125	1.00%	58.75%	73,437,500	(1,563)	(347,364)
169 days						(347,364)	
1 days						(2,055)	
30 days						(61,661)	
Hedge Cost BPS						9.98	
Average		0.02		70.82%	88,520,402	(2,944)	
Low		(0.42)		60.63%	75,781,250	-	No Mkt Movement
High		0.39		81.88%	102,343,750	(31,641)	a 4.5 % fallout change
Options Cost for Period BPS:						2.37	
Net Savings						7.61	

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Dean Brown is the founder and CEO of Mortgage Capital Management. Celebrating 25 Years in 2019, MCM is one of the longest-running Secondary Marketing service providers in the industry.

Ron Kiuttu is Vice President of Finance for Members Mortgage Services LLC. Owned by Credit Unions, MMS is the premier Credit Union mortgage lender in the Midwest for mortgage loans and servicing options.

More information is available at www.mortcap.com

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Call 858-483-4404 ext. 220 or email dbrown@mortcap.com

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Mortgage Capital Management, Inc.
1660 Hotel Circle North
Suite 700
San Diego, CA 92108
858.483.4404 EXT 220

