"Great companies are similar in a lot of ways; poor companies are unique in their own way."

The difference between a highly profitable mortgage lender and a mediocre one sometimes comes down to the methods and tools used to minimize risk and decrease liability. There are many different ways to run your secondary marketing operation and knowing the difference between the most and least effective is a key differentiator.

Ways to Mess up in Secondary Marketing:

Operations

1. Set up Secondary Marketing as a profit center.
2. Compensate secondary marketing manager solely on Gain on Sale profitability.
3. Pressure secondary marketing manager to make a certain amount of profit above priced in Gain on Sale.
4. Don't measure the effectiveness of the secondary marketing department.
5. Don't have a concrete policy for managing risk pipeline positions - let manager "bet" the market.
6. Make secondary marketing staff work beyond their capacity or area of expertise.
7. Don't clearly state your lock extension policy in your policy manual.
8. Allow originators the ability to broker locked-in loans for better pricing.
9. Allow production staff the ability to lock loans directly with investors.
10. Allow the risk position manager to sleep in – the market is always improving.
11. Let the shipping manager decide when loans are to be delivered to an investor.
12. Let the loan origination manager decide what pricing levels should be.
13. Allow loan officers to back date locks.
14. Allow loan officers to manage loan data.
15. Don't cross train secondary marketing staff – the manager of secondary has been here for xx years.
16. Allow loans that have been "In Process" to lock with the previous days pricing after the economic data for the day has been released.
17. Hide trading, pricing, delivery and/or other mistakes nobody will notice.
18. Don't fully commit to changing the way you do business when moving from a best efforts execution strategy to a hedged mandatory delivery strategy.
19. Outsource the lock desk, pricing, trading, and risk management functions of secondary marketing without oversight and management.
20. Don't calculate what each channel of business, branch and loan officer brings to the table from a total contribution analysis provides.
21. Don't track P&L expectations from loan sales because accounting will always get the number right eventually.

Locks

22. Extend locks well beyond their lock periods – take too much time to close loans.

23. Leave locked loans that don't move through the normal processing stages to stagnate i.e., leave them in the risk position until they expire.
24. Let Loans locked in a "No Application" status to be in the pipeline for the entire lock period.
25. Allow funding to close loans on locks that have expired or don't match what has been locked.
26. Don't check the accuracy of your pricing engine lock system, because you don't expect things to change once programmed.
27. Delete locks that don't close in your loan tracking system so fallout numbers are incorrect.
28. Commit locked loans to mandatory trades in excess of the amount expected to close - you can easily substitute them from new production.
29. Don't review the profit margins on newly locked loans to verify pricing and potential delivery issues.
30. Hedge Long term locks the same way you would short term locks.
31. Hedge float down locks and builder commitments the same or the same as long term locks.
32. Provide borrowers with long-term locks without knowing what the closing percentages will be in the event rates drop.
33. Allow loans that have no chance of showing up with a 1003 to be locked.

Investors

34. Close and sell loans to investors that do not meet with investor requirements and expectations.
35. Refuse to negotiate with investors on problem loans or just accept what an investor states in their buyback request.
36. Don't negotiate pricing with investors – they always give you their best price.
37. Expect investors to renegotiate when rates fall.
38. Expect investors to extend locks without a cost when it takes longer than expected to close a loan.
39. Let investor-suspended loans linger.
40. Don't allow enough time for warehouse bank to forward note to investor.
41. Ignore reasons a new investor's loans get suspended.
42. Only sell loans to the best priced investor.
43. Don't follow-up with your investor's request on post-closing docs.
44. Don't keep a trade blotter to track trades with dealers and investors.
45. Don't reconcile purchase advices – investor's never make a mistake.
46. Only use one investor for each product.
47. Expect investors to rationally price every rate and delivery period available. Assume that if they were the best in one spot they will be for all.

Pipeline

48. Don't use options when a pipeline source or renegotiation policy dictates their use is necessary.
49. Don't keep pipeline data clean – let users abuse the tracking system.
50. Hire the wrong firm or model to manage your pipeline risk position.
51. Let loans floating in the pipeline lock in with prior day pricing after the market has opened the next day.
52. Don't back up your loan pipeline or secondary marketing data.
53. Expect closing rate characteristics of a pipeline will never change.
54. Don't reconcile Pipeline Risk Positions between reports and/or day.
55. Hedge your pipeline with the 10yr treasury futures contract or the ten year swap.
56. Assume that you can always add more trading capacity if and when your pipeline coverage needs or pipeline grows.

Pricing

57. Price loans on a best execution basis to deliveries that are not available when loans close.
58. Let borrowers change loan programs at will without regard to pricing or execution.
59. Ignore loan changes that impact pricing changes especially ones that have disparate impacts to LLP's.
60. Price loans on a mandatory basis and deliver them on a best efforts basis.
61. Switch loan processing or pricing engine systems without testing the impact to secondary marketing data files and positions.
62. Don't update pricing when the market improves or sells off.
63. When losing money on the sale of loans into the secondary market – improve pricing so you can make it up with volume.
64. Rely on pricing surveys to set your rate sheet pricing – competitors always post accurate pricing for you.
65. Price loans using your best execution and expect the same profitability level when loans must be sold to a different investor due to documentation or underwriting criteria.
66. Allow loans to renegotiate to current market at will without pricing and hedging them with the use of options.
67. Don't centralize your pricing, lock, and trading desks.

Trades

68. Don't independently verify and confirm trades done in secondary marketing.
69. Don't confirm the details of trades with dealers – neither party ever makes a mistake.
70. Allow for a disproportionate amount of trades to be concentrated with one dealer or investor because they are too big to fail.
71. Forget to pair off trades after selling inventory late in the day.
72. Refuse to post margin on a trading account – there are plenty of dealers who you can trade with.
73. Don't reconcile your trading accounts for mark to market accuracy, trading capacity, or settlement details.

Hedging/Forward Builder Commitments

74. Sell builders aggressively priced forward commitments without the ability to securitize the product.
75. Sell builder's forward commitments expecting less than the dollar amount sold to be delivered.
76. Price all forward builder commitments the same based on market conditions and the term of the deal.

Market activities

77. Grow company originations beyond the capability to process, fund and hedge the production.
78. Cross hedge risk positions without the need to do so, e.g., sell FNMA 15 yr. 3.5's to hedge GNMA 30 yr. 3.0's.
79. Go long or short within product types or delivery months without the need to do so.
80. Assume you won't get more than 10% of your loans in as High Balance.
81. Always rely solely on your market data service provider to give you an accurate picture of the current market and its movements.
82. Assume that if you sell loans on a best efforts basis your risk is fully transferred to the investor.

Miscellaneous

83. Create duplicate loans in your loan tracking system without regard to the impact to your fallout calculations.
84. Rely on just one warehouse lender.
85. Jump on the band wagon and create a loan program for everything that could possibly be available.

86. Don't explore alternative sale executions, because an AOT to investor "XX" has always been our best execution.
87. When selling a servicing portfolio expect that its value will be same a year from now.
88. Create new loan programs before production, processing, underwriting, compliance; IT, funding, and shipping are ready. Boats are best built in open water….
89. Bet which way spreads between mortgage coupons/products will move – as long as you are flat overall nobody will notice.
90. Don't audit note inventory to loans sold to the Agencies.
91. Don't pay attention to cash flow of loans sold versus pair-offs because your company has plenty of cash to maintain margin accounts.
92. Use a MBS prepayment model designed and tuned for a long term holding period to set hedge ratios on a 45-60 day pipeline.
93. Assume that your Agency guarantee fees will not change.
94. Count extensions as fallout when calculating your pull through percentages.
95. Assume that loans still in processing stages of No application, In process, or Submitted will close at the same rate after exceeding your company's normal timeline in that status, but before expiration of the lock.
96. Assume all wholesale brokers are the same from all perspectives
97. Assume all correspondents are the same from all perspectives.
98. Assume all branches and loan officers are the same from all perspectives.
99. Don't track your margin requirements on TBA dealer accounts.
100. When hedging, assume the probability of each shock increment is equal when constructing your hedge position.

While we have listed the above many ways to "Mess up in Secondary Marketing" we are sure there are many more that have not been listed. The purpose of the list is to not make a list, but to give secondary marketing professionals a guideline for referral. Also for every 1 way to mess up there probably are a hundred things that need to be done correctly in order to prosper.