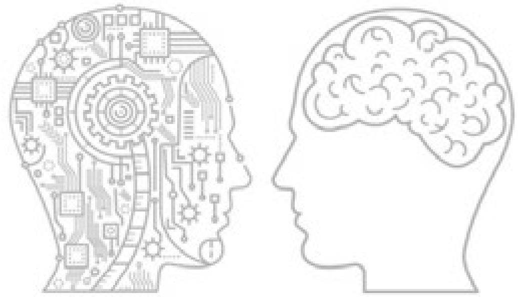
WHITE PAPER

Eight Reasons to Automate Your Secondary Marketing Function



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In the U.S. mortgage market, most loans are sold to secondary market investors during or immediately following the origination process. This creates a series of functional requirements for lenders that are generally described as secondary marketing activities. They include investor selection, loan pricing, lock desk management, pipeline risk management, and committing. These complicated processes are resource intensive, which creates opportunities for lenders to deploy technology to improve operational efficiency, decision making and competitive viability. This white paper describes why lenders must automate secondary marketing functions to grow in today's hyper-competitive environment.

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1. Manage expanding content seamlessly

During the financial crisis of 2008, the number of mortgage buyers fell precipitously. Since that time there has been a resurgence of investors—today more than 150 organizations are actively buying loans. While most buyers are focused on the conforming market, they are increasingly adding programs that do not fit squarely into the definition of conforming conventional and governmental loans. The market for jumbo loans has re-emerged and there is currently an extraordinary amount of focus on programs for mortgage loans with expanded eligibility, first-time homebuyers, and low-to-moderate income borrowers. The resurgence of the non-conforming investor market is excellent news for originators because these programs provide additional opportunities to serve customers. However, managing an expanding set of content in real time with a high degree of accuracy requires automation.

2. Best execution is increasingly complex

Product eligibility and pricing have become exceptionally complex over the past decade as buyers have sought to price risk more accurately. In addition, there has been a proliferation of specialized products for niche markets (e.g., consumers with compromised credit, buyers looking to acquire unique properties, and more). This has made the first step in best execution analysis—matching borrowers with applicable loan programs—increasingly

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complicated and error-prone. Identifying applicable products from a broad range of options and performing best execution analysis in real time requires automation with advanced product matching capabilities.

3. Margin management requires extreme granularity

Managing margins in a precise, flexible, and timely fashion is critical in a highly competitive environment. Margin strategies must balance competitive pricing with profitability goals—and be ready for change on a moment's notice. Because margin strategies typically vary by geography, loan type, investor, and business channel, the margin maintenance can become quite complex, and that complexity increases the need to automate the margin management process.

4. The Lights-out Lock Desk

The lock desk serves as a vital control point and service center for secondary marketing operations, and its efficacy has a major impact on profitability. Every lock desk must deal with myriad changes, from switching products to price concessions, and complicated policies governing investor modifications. What's more, staff management must quickly adjust to unexpected volume fluctuations caused by rising and falling interest rates. Lock desk automation presents a huge opportunity for lenders to capture scale efficiencies by leveraging existing staff and reducing error rates.

5. Open your business to the power of APIs

Software design is increasingly focused on enabling system-to-system interaction. Ideally, these interactions are supported through Application Programming Interfaces (APIs) published by the tech platform operator. For lenders, APIs mean new possibilities to leverage highly specific secondary marketing system capabilities. Specialized APIs can display price data on consumer websites, support locking within a custom point-of-sale system, or re-check loan eligibility at underwriting. Forward-thinking lenders now automate a wide array of key processes with secondary marketing system APIs.

6. Immediately connect with a vetted, third-party vendor network

The digital mortgage movement has driven the proliferation of specialized, point solutions that improve the efficiency of loan officers and deliver greater transparency to consumers. Because price and eligibility data are vital to the user engagement process embedded in these applications, a lender's product eligibility and pricing system must connect seamlessly with third-party vendors. Demand that your secondary marketing system provider automatically connect price data and lock desk functionality to a broad network of third-party applications.

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7. Boost your bottom line by moving to mandatory delivery

Compared to best efforts, selling loans for mandatory delivery provides a meaningful price advantage. Of course, the potential reward comes with risk. Lenders contemplating selling mandatory should carefully consider the systems and personnel required to manage this execution strategy.

Risks stemming from a mandatory execution strategy are generally measured using a risk management system and hedged through the sale of TBA securities or forward agency commitments. Hedge program effectiveness is highly dependent on predictions about which loans will close and the rate at which pipeline data is refreshed. Investing in systems that automate risk management can yield a mandatory execution strategy that contributes materially to the bottom line.

8. Gain business intelligence with data and analytics

Like virtually all financial industries, the mortgage lending business is quickly adopting analytical tools to measure performance and gauge competitiveness.

This trend is driven by several high-quality data visualization platforms, system-provider efforts to improve data access for customers, and recognition that data science contributes to the bottom line. To optimize secondary marketing operations, lenders must have real-time information on locks, change requests, lock extensions, re-locks, and concessions. They should also invest in tools to analyze activity at the product, branch, or loan officer level. To calibrate pricing, lenders should ideally have access to competitive analytics that can be run for specific loan scenarios. Evaluating operational and competitive data is a strategic imperative, and one that requires an automated, on-demand business intelligence solution.

From content to commitment, secondary marketing automation delivers.

Secondary marketing processes have become increasingly complex and resource intensive, prompting lenders to consider necessary changes to support this vital function. As pressure grows to lower costs, improve margins, raise quality, reduce risk and sharpen decision making, automating the entire secondary marketing process—from content to commitment—is a proven path to success.

About Optimal Blue

Optimal Blue, a financial technology company, operates the nation's largest Digital Mortgage Marketplace, connecting a network of originators and investors and facilitating a broad set of secondary market interactions. The company's technology solutions include product eligibility and pricing, lock desk automation, risk management, loan trading, and data and analytics. More than $750 billion of transactions are processed each year across the Optimal Blue platform. For more information, please visit optimalblue.com.

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