



Principles of Mortgage Lending – Secondary Marketing

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Executive Summary

- ▶ History of Secondary Marketing
- ▶ Key Participants in the Secondary Market
- ▶ Main products for the Secondary Market
- ▶ Structure of a Secondary Department
- ▶ How Secondary Works
- ▶ Secondary and Technology
- ▶ Regulatory Compliance and Secondary
- ▶ The Future of Secondary

History of the Secondary Mkt.

- ▶ 1934 – Federal Housing Administration (FHA)
 - ▶ 1929 Stock Market Crash & Great depression.
 - ▶ ARM to Fixed Rate Mortgages.
- ▶ 1938 – Federal National Mortgage Association (Fannie Mae)
 - ▶ 1954 – FNMA Charter Act
 - ▶ 1968 – Private stock offering and Government Sponsored Enterprise (GSE)
- ▶ 1968 – Government National Mortgage Association (GNMA or Ginnie Mae)
- ▶ 1970 – Federal Home Loan Mortgage Corporation (Freddie Mac)
- ▶ 1970 – GNMA 1st MBS
- ▶ 1972 – FNMA & FHLMC buy Conventional Loans
- ▶ 1979 – GSE Buying ARMS
- ▶ April 10, 1987
 - ▶ Rates 8.5% to 10%
 - ▶ Value in Loans dropped
 - ▶ Many lenders did not survive
 - ▶ Holding Financial Interests, “Hedging”

History of the Secondary Mkt.

- ▶ 1990 - “Private Label Securities”
 - ▶ Ie. Citi & Countrywide.
- ▶ 1992 – 2007 – Growth
 - ▶ Steady increase of property value.
 - ▶ Low interest rates
 - ▶ Sept. 11, 2001
 - ▶ Rates < 5%
 - ▶ 2003 - Fed. Funds Rate 1.0%
 - ▶ Expansion of Mortgage Credit:
 - ▶ Subprime Market:
 - ▶ Approx. \$35 to \$125 Billion
 - ▶ Subprime PMBS
- ▶ Alternative Documentation Loans
- ▶ 80/20 Loans
- ▶ Option Arms
- ▶ “Predatory Lending”
 - ▶ High Rates
 - ▶ Saleable Loans
- ▶ GSE’s Market Share
 - ▶ 50% to 33%
 - ▶ Lower credit score tolerances
 - ▶ Higher LTV Limits
 - ▶ Alt-A
- ▶ 2007 – Subprime Crisis

Key Participants – Secondary Market

- ▶ Government Sponsored Entities (GSEs) and Government Agency:

- ▶ Fannie Mae
- ▶ Freddie Mac
- ▶ Ginnie Mae

- ▶ Independent Players:

Rank	Mortgage Lender	Origination Volume 2016	Market Share
1	Wells Fargo	249 B	12.5%
2	JP Morgan Chase	104 B	5.2%
3	Quicken Loans	96 B	4.8%
4	Bank of America	79 B	4.0%
5	US Bankcorp	57 B	2.9%
6	Freedom Mortgage Corp	54 B	2.7%
7	Caliber Home Loans	41 B	2.1%
8	LoanDepot	38 B	1.9%
9	Flagstar Bank	32 B	1.6%
10	United Wholesale Inc	23 B	1.2%
11	Guaranteed Rate Inc	23 B	1.2%

- ▶ Other Participates:

- ▶ US Treasury and FED
- ▶ Insurance companies:
 - ▶ AIG & MetLife
- ▶ Pension Funds
- ▶ Mutual funds
- ▶ Hedge Funds
- ▶ State/Local Gov.

Main Products for the Secondary Market

- ▶ Conventional:
 - ▶ Fixed:
 - ▶ 10yr, 15yr, 20yr, 25yr, and 30yr.
 - ▶ Adjustable Rate Mortgage:
 - ▶ 1/1, 3/1, 5/1, 7/1, 10/1, and 15/1
 - ▶ CAPS:
 - ▶ 2/2/5
 - ▶ 5/2/5
 - ▶ Margin:
 - ▶ 2.25
 - ▶ Index:
 - ▶ Libor
 - ▶ CMT - Treasury
- ▶ FHA & VA:
 - ▶ Fixed
 - ▶ ARM
 - ▶ CAPS, Index, & Margin
- ▶ Non-Conforming (Jumbo):
 - ▶ Loan amount limits
 - ▶ > 453,100
 - ▶ > County Limits (\$679,650)
 - ▶ Fixed
 - ▶ ARM

Structure: Secondary Department

- ▶ Overall Operations
 - ▶ Pricing:
 - ▶ Rate Sheets
 - ▶ Locking loans
 - ▶ Pipeline Management
 - ▶ Loans Sales:
 - ▶ Sale Size
 - ▶ Best-Ex:
 - ▶ Best Effort (BE)
 - ▶ Mandatory (MD)
 - ▶ Bulk Sales
 - ▶ Co-Issues
 - ▶ Mortgage Backed Securities (MBS)
- ▶ Risk Management:
 - ▶ Interest Rate Risk:
 - ▶ Hedging:
 - ▶ BE
 - ▶ MD
 - ▶ MBS/Securitization
 - ▶ Saleability Risk
- ▶ Funding:
 - ▶ Self funded
 - ▶ Warehouse
- ▶ Shipping:
 - ▶ Investor Requirements
 - ▶ Stacking Orders
- ▶ Post-Closing:
 - ▶ Funding Conditions
 - ▶ Quality Control

How Secondary Works:

- ▶ Overview
 - ▶ Protect the Margin
 - ▶ Managing Risk
- ▶ Secondary Marketing Operations:
 - ▶ Rate Sheet generation
 - ▶ Pricing Loans
 - ▶ Locking Loans:
 - ▶ Hedge, Mandatory, and BE
 - ▶ Pipeline Management:
 - ▶ Re-pricing
 - ▶ Extensions
 - ▶ Renegotiations
 - ▶ Cancellations
 - ▶ BE Locks
- ▶ Risk Management:
 - ▶ Multiple Investor Outlets
 - ▶ Pipeline Hedging
 - ▶ Pricing
 - ▶ Master Commitments

Secondary and Technology

- ▶ LOS
 - ▶ Accuracy of information
 - ▶ Live data
 - ▶ Integrations
- ▶ Pricing and locking engine:
 - ▶ Efficiencies for LOs and Secondary
 - ▶ Accurate pricing:
 - ▶ LLPAs
 - ▶ Borrower Quote
 - ▶ Multiple products
- ▶ Hedging platform:
 - ▶ Different & Complex models:
 - ▶ Multiple calcs. and algorithms
 - ▶ Models:
 - ▶ Ie. Duration Hedging.
 - ▶ Efficiencies when hedging
 - ▶ Best-Ex:
 - ▶ Different loan sale executions
 - ▶ Multiple investors
 - ▶ Ease of loan sales
 - ▶ Pooling

Regulation Compliance & Secondary

- ▶ Effect of changing regulation:
 - ▶ GSEs and Investors
 - ▶ CFPB
 - ▶ TRID:
 - ▶ Unknowns of change in process
 - ▶ Investor requirements
 - ▶ Volume prior and after reg
- ▶ Fair Lending:
 - ▶ Pricing to the LOs/Borrowers
 - ▶ LO compensation
 - ▶ Reporting & Controls
 - ▶ Exceptions

The future of Secondary

- ▶ Unknowns of Government changes:

- ▶ Fed and Rates
 - ▶ Fed Funds Rate
- ▶ QE & Bond buying
- ▶ Regulatory changes

- ▶ Investors:

- ▶ M&A and New players
- ▶ New products:
 - ▶ Alt A
 - ▶ Non-QM
- ▶ Expanded guidelines
- ▶ Different Executions
- ▶ CRA



Secondary Marketing

Q & A