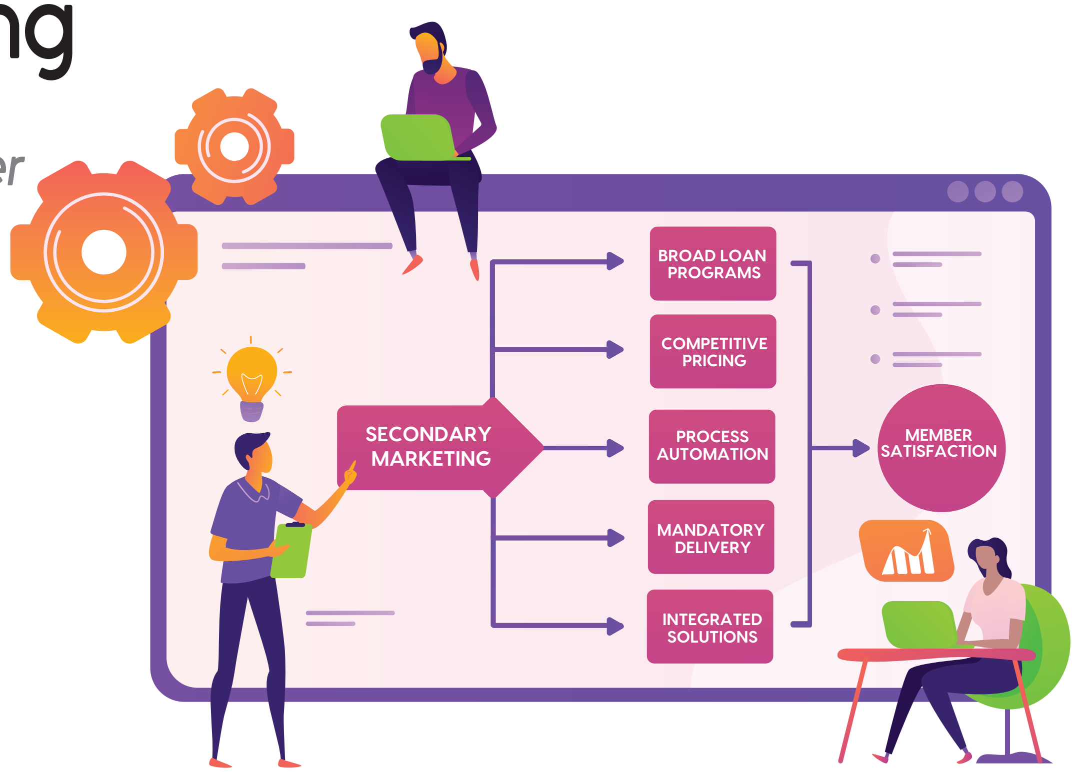
# Consider Secondary Marketing

## *Build a Stronger Mortgage Business While Boosting Member Satisfaction*





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Whether it's growth in top-line revenue or savings through added efficiencies, credit unions constantly seek strategies to improve financially while maintaining excellent member service. Add multiple complexities of dynamics largely out of the credit union's control — including regulatory requirements, volatile origination markets and labor force challenges — and the effort to hit financial or profitability targets can become daunting. It's critical, then, for credit unions to evaluate their entire mortgage loan operation, looking for opportunities across the process that can be controlled and improved.

By definition, secondary marketing is a series of functions and processes that heavily influence financial performance. The choices a credit union makes in its approach to pricing, locking, hedging, loan sales, and more can significantly impact overall results. In its effort to improve financial performance and productivity, credit unions should re-evaluate their current approaches in secondary marketing, understand available alternatives, and make data-driven decisions on strategies that drive the right results.

Let's step through several secondary marketing processes and responsibilities, highlighting five specific areas that contribute to optimizing your mortgage operation. For each of the five areas, we'll consider how process efficiencies and financial growth can be positively impacted. You'll also find a simple step-by-step action plan to help you and your team to reevaluate choices and implement strategies that can increase your operation's profitability while still keeping member service front and center.

### 1. Ensure access to a broad range of loan programs to serve more members.

Acquisition costs remain a significant expense in today's mortgage business. But spending time and money to onboard originators, solicit borrowers, and assess a member's situation only to discover you don't have a loan program that fits their needs is not a recipe for member satisfaction. If your origination team members are going to be successful, they must have access to a wide array of investors whose loan programs fit the spectrum of borrower scenarios. Expanded credit products and jumbo loans, for example, have grown significantly over the past several years. There are potential borrowers who already exist within your credit union membership that you can help become homeowners if you have access to the right loan programs. Your product and pricing engine solution must be able to search and compare the right products instantly, explain why some products may not be available, and show your borrower steps that could be taken to make a loan program viable. It all comes down to delivering the best execution across all investor and portfolio 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 members will pay for an amazing experience, but they still expect a competitive rate. So, it's important for credit unions to understand the marketplace and offer pricing that's balanced with profitability, all the while ensuring the pricing strategy 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. Your mortgage team should acquire tools that provide pricing intelligence for loans locked that day to help them determine the pricing they'll extend to the market. Keep in mind that many pricing intelligence tools simply collect rate data through lender surveys. But that's a slow, manual process, and again, it's merely survey data rather than actual locks. To maximize competitiveness, credit unions should seek pricing transparency solutions that deliver nearly real-time lock activity data to make informed decisions faster.

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

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## 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, credit unions are smart to periodically examine their enterprise to ensure bottlenecks are eliminated. Let's review two processes 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, the lock desk can be automated so your team can move to other, higher-value tasks. Consider the time savings of automatically locking the loan, lock changes and extensions, granting of exceptions and more. Such automation ensures that configured policies are strictly followed, and each scenario is treated consistently. Credit unions 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 members achieve the homeownership dream. As many lenders will attest, the time and effort required to price mortgage insurance can be onerous. While the extra steps ensure the member is getting the best offer, those extra steps take time that cannot be recovered. With the right tools, lenders can enter data once, retrieve pricing from each of their MI partners, and easily compare it. The credit union mortgage team still provides the very best service for members, but without the manual work that only consumes limited resources and effort.

## 4. Consider a 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 your loans is naturally lower. So, when considering new paths to profitability within your credit union mortgage operation while also creating improved workflow efficiencies, shifting to mandatory delivery should be considered. The pricing spread credit unions can expect when delivering mandatory ranges generally from 20 bps to 40 bps. Given that the move to mandatory delivery would require hedging, these risks need to be managed by someone with hedging expertise. In many cases, this skill set may not be present within your credit union. Therefore, outsourcing to an experienced hedge advisory firm is highly recommended. The hedge advisor will help model risks, hedge your locked pipeline and sell your loans. Leading hedge providers will offer an integrated platform 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 seamlessly into the hedge pipeline ensuring the position is updated. For credit unions seeking greater profitability from their growing mortgage business, it's clear that a well-supported mandatory delivery strategy is the next logical step, and 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, credit unions 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. Credit unions should not accept processes requiring re-keying data or "stare-and-compare" work that has no value. Consider a provider that addresses 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, credit unions 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.

## QUESTIONS AND ACTIONS FOR CREDIT UNION LEADERS TO CONSIDER:

Let's uncover the opportunity that's hiding in the five secondary marketing areas of your mortgage operation. Consider these simple, yet actionable steps you can take to identify opportunities with the support of mortgage technology experts.

- **MARKET ACCESS**
  Discuss your lead-to-application rates and application-to-close rates with your originators. 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 in your market. Does that make you feel like you are trying to compete with fewer tools?

- **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? Get a view of different strategies to fully optimize your loan pools for profitability.

- **OVERALL TECH STACK**
  With originations declining, 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 mortgage business? Or are you deploying point solutions that must be individually managed, contracted, maintained, and integrated?

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