

# Seven Habits of Highly Effective Secondary Marketing Managers

2024 Southern Secondary Marketing Conference

Michael D. McAuley  
Principal at Garrett, McAuley & Co.  
February 27, 2024

Garrett, McAuley & Co.

## How Garrett, McAuley Works with Mortgage Bankers:

- FOCIS Reviews for Warehouse Lenders
- Profitability and Best Practices Reviews
- Targeted Mortgage Banking Reviews for Bank Mortgage Divisions
- Strategic Reviews
- Mergers & Acquisitions Advisory
- Due Diligence for Acquisitions
- Executive Management Training and Coaching
- Internal Auditing and Audit Plan Development
- Secondary Marketing Audits and “Wellness Reviews”
- Subservicer Oversight Reviews
- Compensation Plan Reviews

## **Habit #1: Acts as the “honest broker” and a key advisor to the CEO in terms of loan profitability and leakage**

- Understands that his or her job is to protect profit margins on loans, not to turn Secondary Marketing into a profit center.
- Along with the CFO, provides the CEO with the crucial information about where the company makes or loses money on loan origination and sales.
- Develops or uses reporting to identify LOs who cost the company money because of high or frequent pricing concessions, low pull-through, and high costs to cure.
  - Reporting should rank LOs and branches by category and profitability.
- Analyzes profitability by loan product, including which products branch managers and LOs demand that cost the company too much money for too little benefit.

## **Habit #1: Acts as the “honest broker” and a key advisor to the CEO in terms of loan profitability and leakage (cont.)**

- Differentiates margins from secondary marketing gains. (The minimum target margin that a company expects on its loans; the rest is secondary marketing gain or loss.)
- Reports “findage” in a way that Operations can act on it.

## Habit #2: Educates owners and senior managers and takes the mystery out of secondary marketing

- Avoids fancy terminology and “secret handshakes” with CEO, senior managers, and business partners to make secondary marketing seem more complicated than it is.
  - Can explain clearly the company’s hedge coverage, shock analysis, and capital market conditions.
- Can effectively explain the reasons that actual secondary gains and losses were higher or lower than expected any time during the month, particularly through use of hedging advisor tools and reporting.
- Has strong basic reporting for CEO and other managers about hedge position/coverage and GOS.

## Habit #2: Educates owners and senior managers and takes the mystery out of secondary marketing (cont.)

- Knows the company's position within its markets and how that fits with the philosophy of owners and management.
  - Uses rate surveys, friends at competitors, and hedging advisors to give the color needed to determine if the company is as competitive as it wants to be.
- Discusses secondary marketing performance and risk with CEO and CFO.
  - Doesn't try to avoid regular meetings about this or simply assume that, "They get the reports, but they never ask me any questions about them."

## **Habit #3: Masters technical aspects but open-minded to new approaches and not simply wedded to routines and systems**

- Ensures that the company's coverage is actually within proscribed limits at all times.
- Reconciles key information: purchases advices, margin schedules between PPE, hedging advisor, accounting, etc., and pricing policy with lock data.
- Won't simply sell to one Agency or one aggregator. Keeps investors honest by having good alternatives.
  - But also knows when to go on an "investor diet."
- Uses disciplined and systematic approach to manage the many aspects of secondary marketing (i.e., LOS, hedging application, pricing engine, margin schedules for various originators/branches, specified pay-ups, spreads, CRA/LMI incentives, open trades and positions, etc.).

## Habit #3: Masters technical aspects but open-minded to new approaches and not simply wedded to routines and systems (cont.)

- Considers new reporting or tools that the hedging advisor or other experts can offer.
  - And can justify the cost/benefit to the CEO and CFO.
- Ensures that Secondary Marketing is not operating with “stale” information and assumptions.
  - Uses hedging advisor tools to reconcile the rate sheet and margins, G/L and position, and exception strats and workflow alerts.
  - Recalibrates pull-through assumptions with hedging advisor as needed but at least quarterly.
- Automates processes whenever possible to add transparency and reduce opportunities for errors, fraud, and overall market exposure.

## Habit #4: Highlights the effects and benefits of pricing concessions

- Acts as a tough gatekeeper for pricing concession requests so that the owner doesn't have to.
- Recognizes that pricing concessions are necessary but can cut both ways:
  - On the one hand, “Concessions kill.”
  - On the other hand, “Concessions can be helpful.”
- Quantifies the cost of pricing concessions by channel, by region, by branch, and especially by LO.
  - Needs to be in bps and especially in total dollars per month to make an impact.
  - Usually yields surprises about the most profitable branches and LOs.
  - Crucial tool for owner and senior managers about profit leakage and how to reduce losses.

## Habit #5: Bolsters compliance efforts, especially for loan pricing and Fair Lending

- Ensures that the pricing model conforms to regulations and to the company's documented P&P.
- Works with Compliance to ensure that concessions aren't causing potential Fair Lending risks.
- Helps the Compliance Manager explain the pricing model to regulators in order to demonstrate regulatory compliance.
- Maintains detailed records of when margins changed, why they changed, who authorized the change, and the effective date of the change.
  - Obvious for Fair Lending/regulatory reasons.
  - But also important for branch-corporate relations and potential disagreements related to P&Ls, compensation agreements, etc.

## Habit #6: Develops strong product offerings and executions to help LOs and the company be successful

- Develops the full range of executions possible to take advantage of industry conditions (i.e., bulk mandatory trading, Agency MBS, co-issuance, AOTs, private-label MBS, portfolio products, etc.).
- Maintains good relationships with investors for new products, volume incentives, and loan and price exceptions.
- Shadows potential investors and is nimble with the investor mix.
- Uses loan sale color to negotiate with investors.
- Negotiates strong aggregator purchase and sale contracts that protect the company from repurchase demands and indemnifications.
  - It may be worth using expert outside counsel for help with this.

## Habit #6: Develops strong product offerings and executions to help LOs and the company be successful (cont.)

- Reviews loan product usage in order to keep the product menu manageable and so Secondary Marketing, Finance, and Operations don't have to support products that no LO ever uses.
  - Examples might be construction/perm loans, HFA loans, certain jumbo loans, etc.

## Habit #7: Contributes to LO and executive recruiting efforts

- Demonstrates strong sales and communication skills with lift out and individual LO recruitment efforts.
  - Assures recruits that Secondary Marketing has broad range of products and execution methods.
  - Brings into the recruiting meetings the lock desk manager and other staffers with whom they will work.
- Provides prompt feedback for CEO and production manager whether recruits would be profitable and a good fit with the company's corporate culture.
  - Recruits' product needs, pricing requirements, discretion, etc., and whether they would be worthwhile to the company.
- Recommends strong recruiting candidates for company.
  - Obviously LOs, but also CFOs and managers for Ops and Compliance.

## Seven Habits of Highly Effective Secondary Marketing Managers

1. Acts as the “honest broker” and a key advisor to the CEO in terms of loan profitability and leakage.
2. Educates owners and senior managers and takes the mystery out of secondary marketing.
3. Masters technical aspects, but open-minded to new approaches and not simply wedded to routines and systems.
4. Highlights the effects and benefits of pricing concessions.
5. Bolsters compliance efforts, especially for loan pricing and Fair Lending.
6. Develops strong product offerings and executions to help LOs and the company be successful.
7. Contributes to LO and executive recruiting efforts.

**For more information or to sign up for our weekly newsletter, contact us:**

■ **Michael D. McAuley**

**Principal**

**(281) 250-2536**

**[mmcauley@garrettmcauley.com](mailto:mmcauley@garrettmcauley.com)**

■ **Joe Garrett**

**Principal**

**(510) 469-8633**

**[jgarrett@garrettmcauley.com](mailto:jgarrett@garrettmcauley.com)**

**Garrett, McAuley & Co.**