



READY, SET, LOCK!

A GUIDE TO LOCKING IN YOUR MORTGAGE LOCK DESK OPERATIONS



INTRODUCTION

Of all the secondary-related functions inside a mortgage operation, the lock desk is arguably one of the most unassuming components. However, by serving as the connection point between front-line sales staff and investors, the lock desk holds significant responsibility for protecting the company's profitability strategy.

For lenders seeking to move from best efforts to mandatory execution, centralizing this function and optimizing its operations is critical to ensuring the long-term success of this transition. This piece will offer an analysis of lock desk operating models and outline best practices for effective lock desk management.



OPERATING MODELS

The lock desk's importance extends beyond the initial rate lock to include ongoing management of all locks to ensure a lender's pipeline is optimized for performance. Just as the operations staff is highly focused on guiding mortgage applications through underwriting to reach the closing table, the lock desk should operate with equal care and diligence on a parallel track to monitor and manage the rate lock until closing.

By serving as the bridge to front-end sales staff, the lock desk has a direct impact on both an organization's bottom line and the overall borrower experience. Thus, this needs to be a well-developed function within your organization. In this case, though, the definition of "well-developed" may not be as all-encompassing as it might seem.

In most large lending organizations, a dedicated team typically holds primary responsibility for managing the lock desk, but smaller lenders may not have the in-house subject matter expertise or budget to run a lock desk, making outsourcing seem like an attractive alternative. However, there is a downside to utilizing an external party for lock desk management, the largest of which is communication with the company's most valuable resource – the sales staff.

The lock desk is the clearinghouse and the final word on rate lock extension and/or exceptions. By virtue of their connections inside the organization, an internal lock desk manager is going to be better equipped to triage these requests and respond promptly. Furthermore, their intimate knowledge of the larger secondary picture ensures they can make decisions that are in the best interest of the company's bottom line and provide loan officers with more detailed reasoning when these types of requests must be denied.

Thus, outsourcing may provide short-term relief in terms of quickly fulfilling staffing needs, but the long-term benefits of firmly establishing this role internally far outweigh the immediate gains of outsourcing.

Given that the lock desk role does not require the same level of sophistication and subject matter expertise as other secondary-related functions, smaller lenders may find that an existing employee can fulfill these duties along with other secondary-related responsibilities. Not only does this address any budget/capacity constraints, but it also provides an internal career development opportunity that ultimately benefits the organization by developing additional secondary experts that can shepherd this division as the organization's needs expand.

BEST PRACTICES

TRACKING LOCK EXPIRATIONS

First and foremost, the lock desk should be actively tracking all rate lock expiration dates. This sounds obvious enough, but given its importance in helping to maintain the organization’s pipeline position, it bears emphasizing, as the consequences of a missing a lock expiration can be significant – especially if it becomes a frequent occurrence. Chief among these is

the “free” rate lock extension. As any experienced mortgage banker knows, the word “free” is a misnomer, as all rate extensions come at a cost to the lender. Not only does an unexpected rate lock extension distort earnings, but it also has implications for the expected gain on sale for that loan – both of which have a direct effect on the organization’s profitability.

DAILY LOCK REPORTING

While extensions are inevitable, the goal should be to limit as much as possible the circumstances that would trigger this need. To help with this effort, the lock desk should receive a

daily report that notes any locks set to expire so that they can request status updates from the loan-level support staff and determine what actions need to be taken based on that information.

STATUS UPDATES & COMMUNICATION

The lock desk should also ensure that loan statuses are timely and being properly updated, as delays can have a direct effect on the organization’s secondary execution strategy. Communication between the lock desk and loan officers is also key to ensuring that lock expiration dates are set

appropriately to allow adequate time for loan processing and underwriting. This is especially important during high volume periods, when delays in processing, underwriting and appraisal delivery are more likely to occur, creating conditions that might necessitate a rate extension

BEST PRACTICES (CONT.)

RESPONSIVE RATE POLICY

Given the impact of volume shifts on lock desk operations, lenders would be well advised to adjust their rate policies based on market conditions. By restricting short-term locks during origination booms to approved applications or those ready for docs to limit rate extensions as much as possible, lenders can avoid issuing free rate lock extensions.

PARTNERING FOR SUCCESS

A strong lock desk operation is key to ensuring consistent profitability for lenders, particularly in regards to their execution strategy. At a certain point, lenders will reach a level of volume and secondary expertise where there is no longer a benefit to lock individual loans on a best efforts basis, thus ushering the organization into the world of short-dated mandatories and hedging. Working with a trusted advisor to guide the transition from best efforts to mandatory can make a significant difference in the overall transition timeline and ultimate success of this effort, and many lenders find that utilizing a hedge advisory firm to oversee their secondary strategy provides bench strength in their secondary operations that would be difficult and expensive to source through other means.

CONCLUSION

While outsourcing the lock desk may seem like a cost-effective approach in the short term, the long-term benefits of having a dedicated lock desk staff position will provide dividends and a path for growth well beyond the short-term savings – especially for those lenders eyeing the transition from best efforts to mandatory execution as the next step in their master growth plan. Establishing

protocols to ensure the accuracy of information flowing into the lock desk and promote communication between sales and lock desk staff, particularly when policies must adapt to align with market conditions, provides a solid foundation for lenders to evolve their secondary strategies and maximize profitability.



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