

FALLOUT DATA ISSUES

Fallout is one of the most critical elements of any hedging model. Its impact on the mortgage position can be crucial to the ultimate profitability of a mortgage company. Much like a pilot who sets coordinates in a flight plan to reach a destination, a miscalculation from bad information can lead him off course by many miles, which could be disastrous.

Mortgage Capital Management defines fallout as the percentage of loans that cancel or are rejected after having been locked-in. Additionally, fallout loans include loans that, for whatever reason, receive lower-than-market pricing compared to the pricing available the day they were originally locked-in.

Fallout risk becomes a reality when an excess amount of mandatory (short) coverage is used to hedge a price protected (optional) pipeline in a declining interest rate environment. After interest rates drop significantly, loans that have been locked-in by borrowers may cancel or be renegotiated at lower rates leaving the mandatory (short) coverage unfillable with closed loans. This situation usually requires that the (short) coverage trades be bought back from investors at a loss. Hence, a great deal of modeling must go into forecasting fallout in order to achieve the desired results.

We cannot overemphasize the importance of good fallout data. When accurate, the data allows us make adjustments to the mathematical models necessary to provide accurate hedging recommendations and assist the company in performing up to its profit margin expectations.

Some common issues with fallout data that can impact the accuracy of information and ultimately impact profit margin include:

1. **Missing or incorrect funding dates** – All dates in the fallout file are important but this date is the most important. Missing funding dates will cause a loan to be classified as fallout. A review of all loans missing a funding date is essential, especially those fallout loans that have a doc date.
2. **Missing or incorrect milestone dates** - MCM has created a report called Fallout Timeline Analysis. The report allows secondary managers to analyze how long it takes for loans to move through each status while in the pipeline. If the dates in the Application date, Funded Date, Approval date, and Documents date fields are correct, MCM can provide the client with an accurate timeline fallout analysis for the overall pipeline and for each branch office. If one of the fields has incorrect dates, it will affect the results of the analysis. It is essential that these dates are correct from the start.
3. **Lack of original lock information** – Original lock information including original program, rate, discount, and lock date/lock expiration date, are essential in computing renegotiation percentages.
4. **Incorrect original or final rate/discounts** – Original rate/discount and final rate/discount must be accurate in order for MCM to correctly determine if loans were renegotiated. This allows us to accurately calculate client renegotiation rates.

5. **Missing Loans** – Loans missing from the fallout file will skew the data. It is essential all loans that are cancelled or withdrawn still appear in the fallout file.
6. **Missing application dates** – Every loan that has an application should have an application date unless it was a To Be Delivered Loan (TBD). Missing loan application dates will cause the loans to appear as a No App loan which can affect fallout by status results.
7. **Missing Withdrawn or Cancel dates** – These dates help us determine how long a loan remained in the pipeline and allows MCM to fine tune fallout modeling for each client.
8. **Missing or incorrect branch/broker information** – Accurate branch or broker information will allow MCM to provide the client with accurate fallout by branch or broker results.
9. **Data files received too early or too late** – MCM typically requests fallout files be sent two weeks after the end of each quarter. This allows for all loans that may be extended late to be excluded from the analysis.
10. **Fallout data fields not in correct order** – The client fallout file must adhere to a specific format in order for MCM to provide accurate fallout results in a timely manner.

Complete and accurate information should be considered a mission-critical element when providing fallout files. Not only will it assist in achieving expected profit margins, but it will also provide more accurate ancillary reports like the aforementioned Fallout Timeline Analysis that will help clients manage pipelines more efficiently and assist in managerial decisions to improve business.