

under **one roof.**

MBA'S Spring Conference & Expo 2021

Independent Mortgage Banks • Secondary Markets • Servicing • Technology

APRIL 20-22

MBA. **LIVE**

Options as a Tool to Help Manage Mortgage Pipeline Risk



Options:

- Regular Locks
- Float Down Locks
- Builder Commitments
- TBA MBS Puts
- TBA MBS Calls
- Synthetic TBA Put: TBA Forward sale plus TBA MBS Call
- Long options versus short option positions
- Treasury Cash Options
- CBT Treasury Futures Options: 5yr, 10yr, 30yr contracts
- Puts on the 10yr Futures contract
- Calls on the 10yr Futures contract
- Synthetic Options Position: Long Treasury Futures Put + Long Treasury Futures Call + Short TBA
- Neutral the basis versus long or short the basis
- Spread Analytics
- Volatility Analysis
- Options Can't hedge away Spread Risk from released sales



Calibrate | Focus | Execute

Sample Float Down Lock Pricing¹

Start with your 60-day Conforming Rate Sheet Pricing

Upfront Fee	Period	Rate Adj	Disc Adj
0.250	90 day	0.250%	-
0.500	120 day	0.250%	0.250
0.500	150 day	0.375%	(0.375)
0.500	180 day	0.375%	-
0.750	240 day	0.500%	(0.125)
1.000	360 day	0.750%	(0.250)

¹ Can be used for One-Time Close or Spot Commitments

Final Rate and Price equal to the lower of the Capped Rate & Price
or the current 30-day Ratesheet at time of Docs.



Options as Hedge Tools



If you had Options on before the pandemic you made out handsomely



Whipsaw effect of not having options



Puts for Pipeline Locks



Synthetic Puts

Long the basis
Short the basis
Neutral the basis
Define Maximum, and current Volatility levels

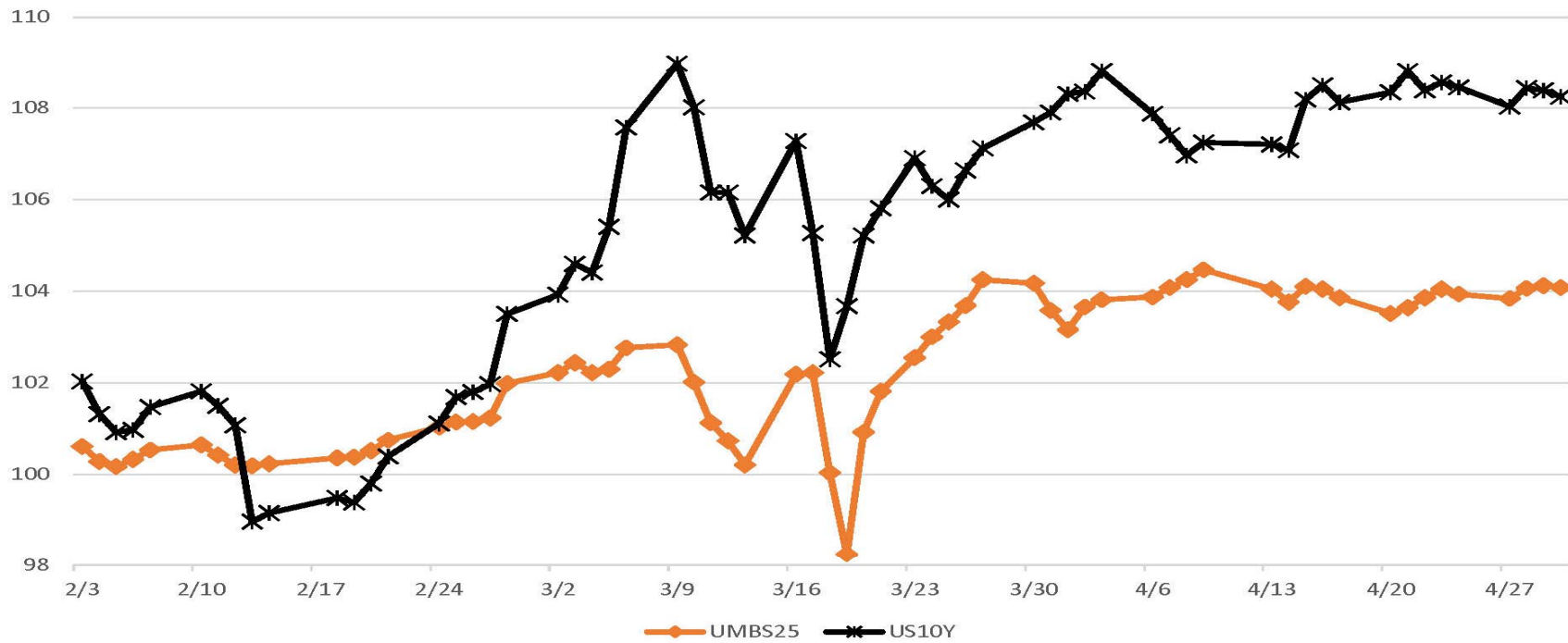
[Normalcy Bias Mortcap.com/blog/64](https://mortcap.com/blog/64)

5/8/2019 Mortgage Bankers managing large pipelines of loans in process always need to stay on an even keel to avoid volatile earnings swings

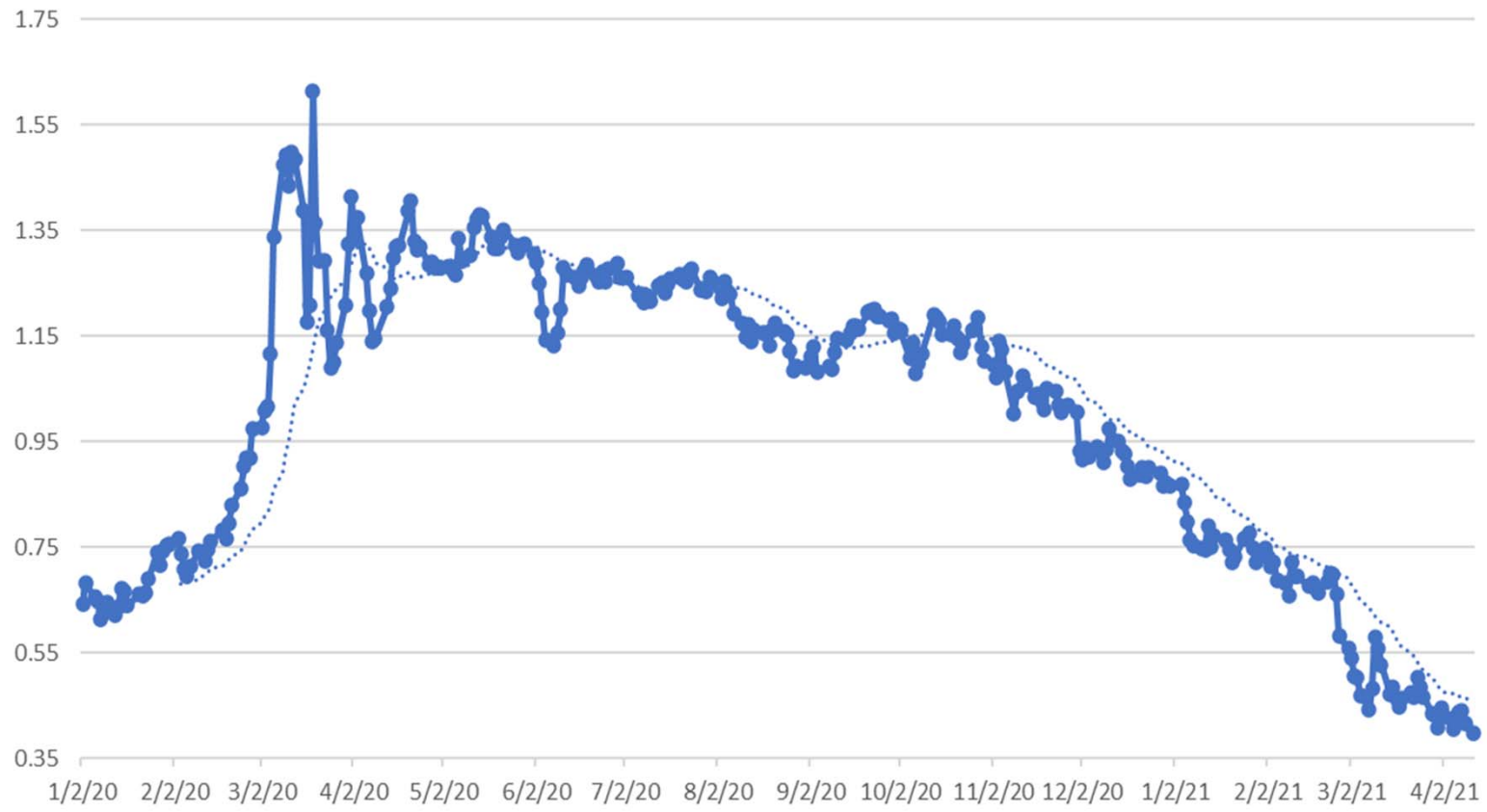
[Hedge Cost Comparison Mortcap.com/blog/48](https://mortcap.com/blog/48)

10/22/2015 In volatile markets Options save way more than they cost!

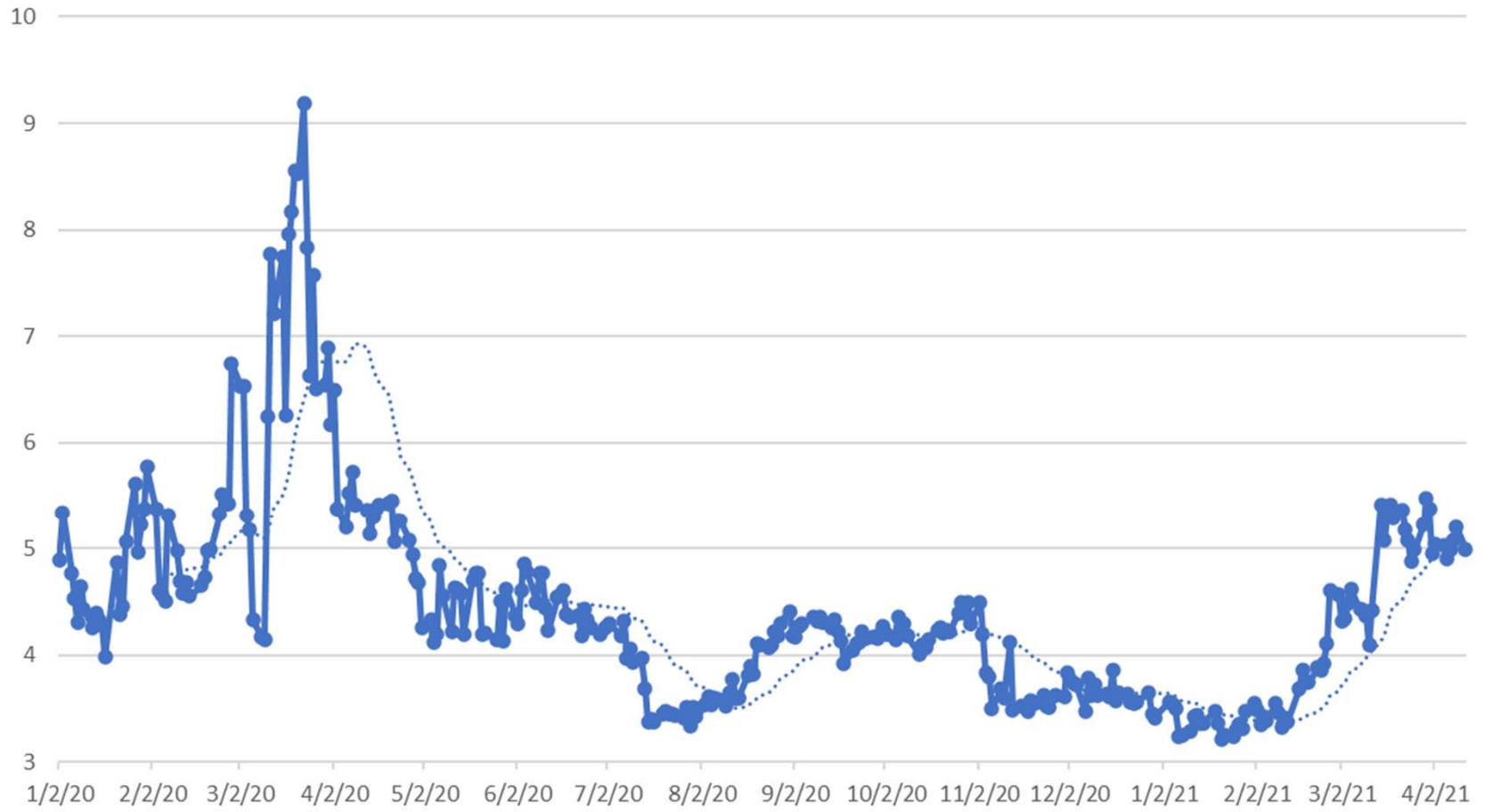
Pandemic Price Action 2020



UMBS 2.5 OAS



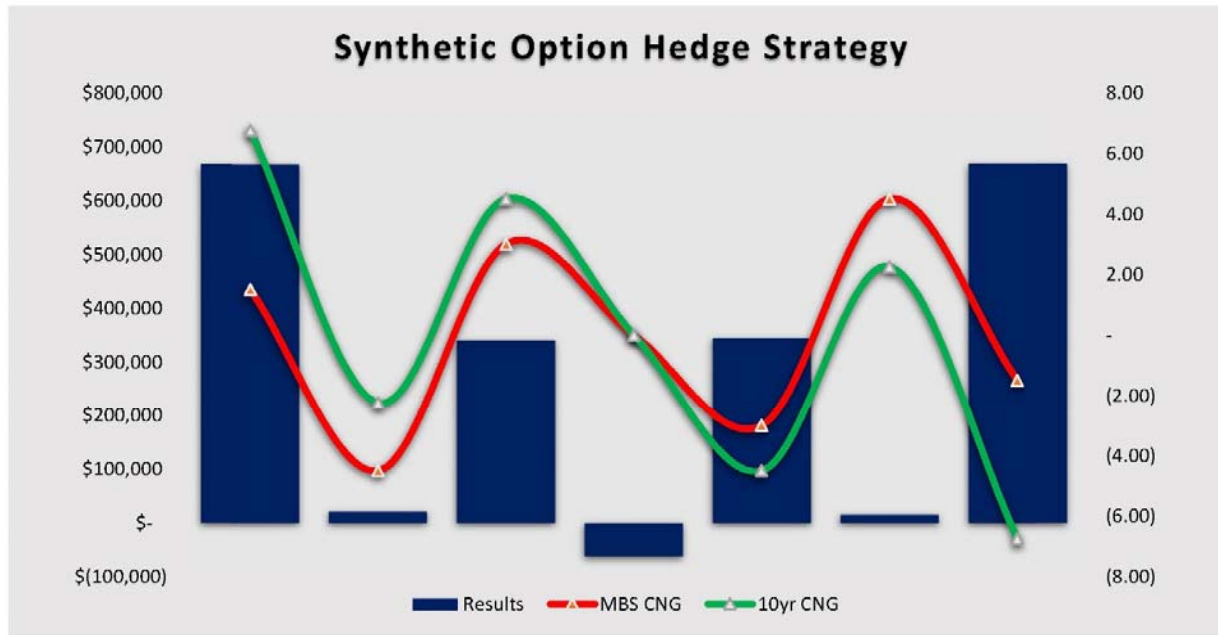
UMBS25 Volatility



Market Changes:

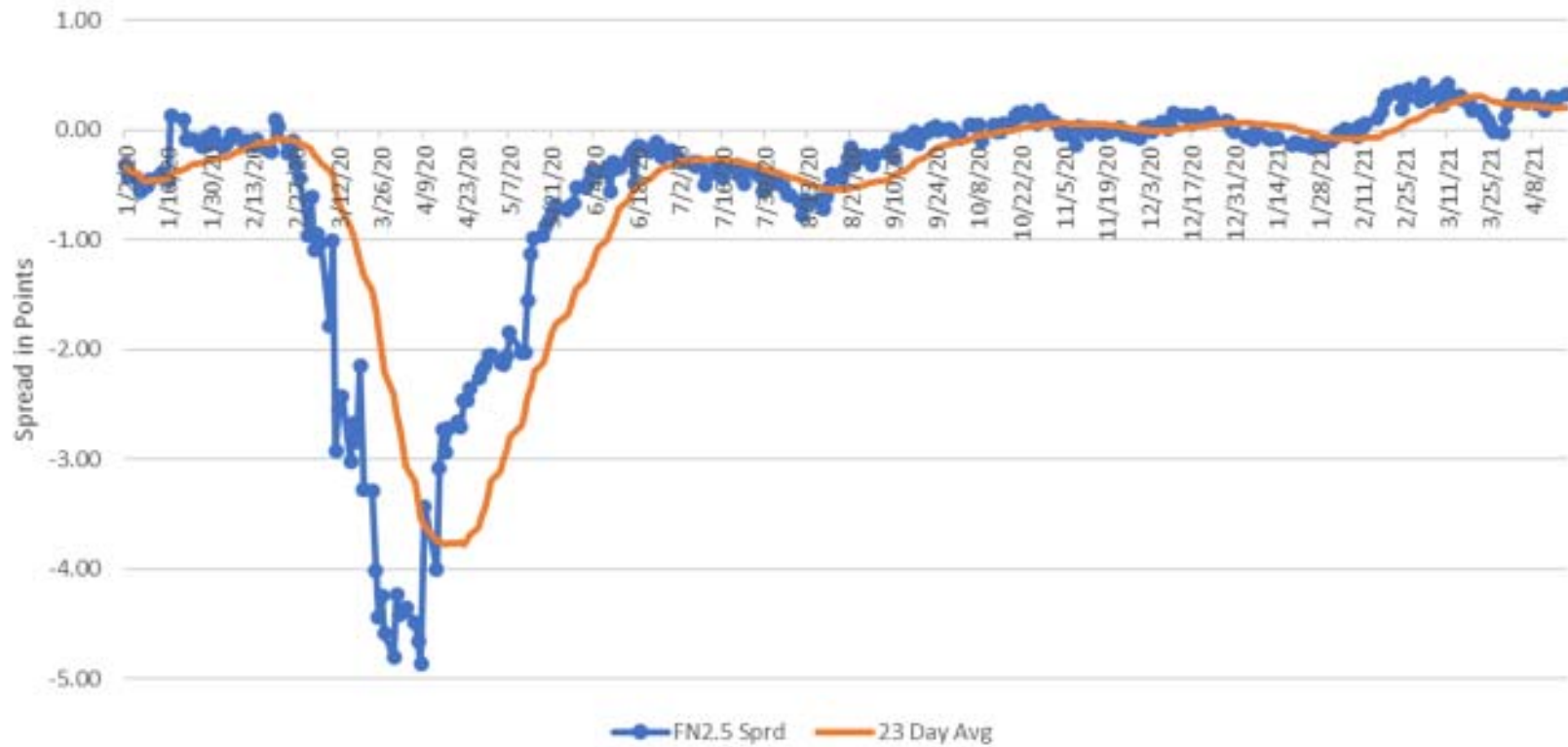
Sprd Widens Mkt Increases
 Sprd Widens Mkt Decreases
 Sprd Flat Mkt Increases
 Sprd & Mkt Flat
 Sprd Flat & Mkt Decreases
 Sprd Decreases & Mkt Increases
 Sprd Decreases & Mkt Decreases

	MBS CNG	10yr CNG	Spread CHG	Results	Hedge G/L
	1.50	6.75	0.50	\$ 666,500	0.67%
	(4.50)	(2.25)	0.50	\$ 21,350	0.02%
	3.00	4.50	-	\$ 341,000	0.34%
	-	-	-	\$ (62,000)	-0.06%
	(3.00)	(4.50)	-	\$ 344,900	0.34%
	4.50	2.25	(0.50)	\$ 15,500	0.02%
	(1.50)	(6.75)	(0.50)	\$ 668,450	0.67%
	-	-	(0.00)	\$ 285,100	0.29%





Correspondent Average Price for 3.25% Note Rate - UMBS 2.5 Price + SRP





Correspondent Average Price for 3.25% Note Rate - UMBS 2.5 Price + SRP

