(Mr. Tenkey #532)

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Dear Management: Common knowledge: Loans go, from prospect to funded.

Not-so-common knowledge: The backstage goings-on, within the capital markets dept.

So, let's see how they lock and manage those locks.

BEST EFFORTS:
-The safer option, but not always the best value.
-The loan is locked with a specific secondary investor, at a specific rate.
-The loan either funds and then purchased by that investor, or it fails and no financial penalty follows.

MANDATORY:
-The (mitigated) riskier option, and generally the better value.
-The loan is locked by your company itself, at a specific rate.
-Your company then takes ALL the financial responsibility to hold that rate, as committed... no matter what the market does.
-So, here's where the term "hedge" (insurance) comes into play.
-Your capital markets dept, hedges against the movement of the market, through trades of offsetting positions.
-All toward a goal to essentially break even with the value "at lock". (As you DO NOT want a cap mkt dept that gambles on market movement.)
-Hopeful end result, loan is funded and sold on the secondary market at a better execution than locked at.

Just a taste, but the more you know... the less secret society, capital markets is.

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