

Using RS Edge to Maximize Premium Execution in Mortgage Originations

The Client

A mortgage originator uses Edge to improve execution on its specified pool production. Using Edge, this originator is able to demonstrate that its loans pay slower than comparable “generic” production within a particular spec pool sector. In turn, this originator was able to generate a premium on its production versus pay-ups on comparable production, improving overall execution on its origination.

Challenge & Approach

The Mortgage Originator knew instinctively that its loans were paying significantly slower than market-generic speeds for a particular sector. But without quantitative evidence, it was failing to garner any type of premium on its production.

This Originator then began using RS Edge’s easy-to-navigate user interface to compare recent prepayment speeds of its production against that of the overall market for a particular spec pool sector - GNMA2 loans with \$150k max loan size.

Using Edge, the Originator generated two S-curves: one for its \$150k-max pools (BLUE) and another for market-generic \$150k-max (BLACK). This analysis armed the client with the data needed to make a strong case for a premium execution on its production over market standard pay-ups, ultimately improving its spec pool execution.

Immediate ROI

The prepayment disparity illustrated by the RS Edge output translates into approximately half-point better execution in the secondary market, meaning that the client, which originates approximately \$20 million per month in the sector, could reasonably expect to command as much as $\$20\text{MM} * 0.5\% = \mathbf{\$100,000}$ per month in additional P/L from this one spec pool sector alone.

