

# Freddie Mac Single-Family Home Starts Here Podcast Episode Transcript:

## Power of Partnership -- MCT

**VO** [00:00:01] The Power of Partnership is our podcast under the Freddie Mac Home Starts Here podcast series that focuses on the strong relationships between Freddie Mac and our third party partners. Learn how we're teaming up with these partners to provide you with an efficient end to end experience for conducting business with us.

**Amy Creason** [00:00:19] Hello, I'm Amy Creason, Freddie Mac's director of sales for our Secondary Market Advisors, or SMA team. And I'm your host for this episode of The Power of Partnership MCT and Freddie Mac Ensuring Efficiency and Accuracy Through Integrations. I'm looking forward to an informative conversation with my guests Chris Anderson, Chief Administrative Officer, and Paul Yarbrough, Senior Director of Client Success both at MCT, one of our valued secondary market advisor partners. Today we'll discuss the integration and automation benefits that mutual MCT and Freddie Mac clients may realize in their pricing, committing and accounting activities and the importance of those integrations to support rate sheets and hedging accuracy. Welcome, Chris and Paul. I'm excited for today's conversation for our listeners to learn about MCT's lock desk and hedge advisory services, how MCT's technology platforms interface with Freddie Mac and the client efficiencies and loan sale value supported by MCT's innovative solutions. Chris, would you please get us started by providing an overview of MCT, its capabilities, and your client base?

**Chris Anderson** [00:01:30] Well, thank you, Amy, and of course, thank you so much for the opportunity to be on the podcast. Paul and I are really excited to be here with you. MCT was founded in 2001. It's still privately held by our President and CEO Curtis Ritchens, and our chief operating officer, Phillip Rasori. MCT started exclusively as a boutique hedge advisory firm, but MCT now offers a variety of capabilities to mortgage lenders of all sizes to assist them throughout the entire loan manufacturing process. We've been very lucky to grow at a great clip over the last several years, and MCT's current client base represents a group of well over 300 unique clients, including lenders of all sizes and shapes. And Amy, as we were discussing, while growth is important to any business, MCT is very passionate about growing responsibly and ensuring that we are always staffed so that we can continue to provide that boutique level of white glove customer service that we're known for, despite having a large number of hedge clients that we have. We strive to have the absolute best technology possible, but at MCT we really focus on our core principles, that service has to come first. We don't want our clients to ever feel like they're just submitting tickets to a help desk somewhere.

**Amy Creason** [00:02:47] Yes, that's right.

**Chris Anderson** [00:02:48] MCT and Freddie Mac have a long history of working together. We really enjoy working with folks like Amy Creason on the call with us today. And we do this to make doing business with both of our organizations as easy as possible for our clients. MCT and Freddie Mac share over 150 mortgage lender clients consisting of a large ecosystem of independent mortgage banks, depositories and credit unions. And we've taken time over the years to work strategically together to develop tools that make pricing retrieval, commitment execution and most recently, cash purchase advice data retrieval as seamless and efficient as possible for our mutual clients.

**Amy Creason** [00:03:25] Absolutely, Chris. The intentional partnership between MCT and Freddie Mac has yielded real benefits for our mutual clients in the forms of efficiency and education. And we'll talk more about our educational collaborations in a bit. But first, Chris, I'd like for you to tell us more about MCT's unique lock desk division. How long has MCT provided the lock desk service and what are some of the features clients receive?

**Chris Anderson** [00:03:48] We started MCT's lock desk a little over ten years ago. It was the first division I was actually hired to build out, and we started it because we found that having an intimate knowledge of a lender's lock desk gave us tremendous insight into their mortgage technology stack, their data, and, frankly, even their company culture. It gave MCT an opportunity to connect directly to our lender's loan officers and really understand how to speak in our client's own language.

**Amy Creason** [00:04:15] That's really interesting.

**Chris Anderson** [00:04:17] While we faced a tremendous demand for lock services, we've always been very careful to grow it at a responsible rate to ensure that we always have appropriate staffing so we can provide that best service possible that we were talking about earlier. Our primary lock desk operations are run out of San Diego, and so we have several great colleges like UC San Diego, San Diego State or a number of other universities that provide the raw talent that we really like to have to enable us to provide that best service possible. And so our typical lock desk hire, Amy, is a recent college grad with a degree in mathematics, econ, business or finance. Frankly, they're better educated than I was, even though I went to the same schools. But they're interested in pursuing a career in capital markets, and that's what we really love. It's a blank slate for us to work with.

**Amy Creason** [00:05:12] That's really great, Chris.

**Chris Anderson** [00:05:14] Thanks so much, Amy. Our lock desk team is headed up by our senior director, Natalie Arshakian. They spend several years learning the ins and outs of clients and well over 100 secondary market outlets, including Freddie Mac. Natalie runs what we affectionately call our secondary mortgage boot camp, and it really does a great job of establishing a foundational knowledge of the mortgage industry and secondary marketing to our employees. And it really ensures that those employees are knowledgeable about a variety of conventional and government products and investor requirements. And many of our staff actually spend a few years working on our lock desk and then promote out into other divisions. I think to date, we've had something around 25 or 26 of our employees that started on the lock desk, went through the boot camp, and now they're in trading or they're in MSR or sales. And we're really, really proud of that. And we're proud of the contributions it's bringing to the industry as a whole to help get a younger generation of people interested in the capital markets arena. All of this great work over the past ten years really was made possible by a great team that was led by Natalie Arshakian and the senior director of our lock desk. I'd love to take credit for it all, but I really can't. What is wonderful is that the industry is taking note of this amazing person that works for us. So Natalie was just recognized as one of Mortgage Women's magazine's 2022 mortgage stars, and as one of the Mortgage Professional of America magazine's list of elite women for 2022.

**Amy Creason** [00:06:48] Congratulations to Natalie. Chris, can you tell us a little bit more about how the lock desk communicates with front end pricing and how lenders are able to get the best pricing to borrowers?

**Chris Anderson** [00:07:00] Absolutely. Amy. MCT's lock desk works within all of the major product and pricing engines, or PPE's, in the industry on behalf of our clients to process their rate lock requests. So that gives us firsthand ability to see how lenders are configuring their PPE's and passing their aggregator and agency pricing through to the borrower. Some of MCT's lock desk customers actually choose to use custom rate sheets, which they can obtain through our managed services process or our self-service MCT live rate sheet generator to push that most competitive price out to the borrower. But whether they're using a custom rate sheet or a rate sheet generator, these services assist lenders with passing on pricing opportunities to a borrower that may not traditionally be available in their PPE. And we do that by running best execution analysis across all of their execution types or even passing some of their mandatory executions through to the front end. Amy and I were just discussing a mutual independent mortgage banker client in the Midwest that has chosen to use their Freddie Mac mandatory price as their starting point and then margin down from there. And this enables them to ensure they're getting the absolute most competitive price onto the street and out to their borrowers. Another area that we often find that our services are able to assist with is enabling our lenders to pass on spec pricing that may not be available in a traditional pricing engine configuration. One of the great things about MCT is that we actively seek out employees that have had experience running secondary or capital markets and have had to sit in the same chair that our clients have. To

be very clear, we're not poaching anybody from our clients, of course, but as folks have become available, we've been lucky enough to recruit them. So while many of us at MCT have the experience of providing services to clients, folks like Paul Yarbrough have actually been clients and have directly gone through things like having ownership put pressure on secondary to come up with the best price for their originators.

**Amy Creason** [00:09:02] Well, Chris, I really appreciate that. Certainly, as a former secondary marketing manager myself, it's a fairly intense as well as complicated type of job. So Paul, I was going to come over to you now. So affordable lending, talking about complicated. It's a hot topic right now. And can you talk about how affordable products factor in to this equation in managing margin?

**Paul Yarbrough** [00:09:28] Yeah, thanks, Amy. For a lender to successfully originate an affordable product, they must ensure that all the pricing value is passed to the borrowers within their rate sheet. And so Freddie Mac allows that to happen through our rate sheet product, through specified payups. So specified payups, of course, just defining a certain group of loans like Home Possible or Green products or even, you know, low loan balance, specified payups, low loan balance, of course, meaning the UPB is below a certain threshold. An example being \$85,000 threshold. So if a loan is below that, it could receive a specified pay up. So as Chris mentioned, our rate sheet services allows for a lender to start with a price that includes a specified pay up like Freddie Mac's new Home Possible specified pay up or their Green specified pay up. These payups will incentivize lenders to originate those loan products, therefore increasing the opportunities and exposure to borrowers. Those other specs I was talking about, as Freddie calls them, durable specs, those are like your low loan balance payups. Those have been around for quite some time. And as the market has become more efficient on the primary side, those have been passed through to the borrower. And that's great because there is good correlation between smaller loan sizes and affordable products. So that brings in the opportunity to sell the affordable loan as a low loan balance and achieve a higher revenue. These payups exist because there is a slower prepayment speed and that can increase the value of the loan for the end investor. The other advantage to affordable products and originators is that there may not be charged certain credit fees or loan level price adjustments. These products, like HomePossible, often have caps in these low level risk based pricing adjusters. So that means that the borrower is effectively receiving a lower rate than they otherwise would had they not been originating through one of these affordable products.

**Amy Creason** [00:11:43] And Paul, how does the seamless integration from rate sheet to best execution affect the borrower? How does this process also affect the lender?

**Paul Yarbrough** [00:11:53] The lender, they get incentivized to originate these products like let's stick with Home Possible because like I said, the pricing drives a lower rate and therefore they're incentivized to expose that product to more borrowers. Since pay ups do exist, meaning the revenue goes up for perhaps a Home Possible loan, origination costs can go down. So, you know, you might ask yourself, you know, these originators are just going to increase their bottom line, why wouldn't they just keep all that pay up for themselves? Well, that's the great news with the efficiency of the primary market, with lenders fighting for every loan they pass through these pay ups to make themselves more attractive to the borrower as well. So the lender needs to be well versed in the product and making sure they're originating correctly so they can achieve these payups and ultimately attract more borrowers and meet their own affordable goals that I'm sure they have. But if you're going to market a loan to borrowers that you're hoping to achieve a better price on it when you sell that into the secondary marketing, you need to ensure that you're including that pay up within your mark to market and your best execution process. Meaning when the loan is funded to the borrower and now you're ready to sell that loan to Freddie Mac, you want to make sure that you're analyzing all the possible payups if one exists and including that in the price that you ultimately want to sell to. So if you don't include it, you may end up selling it to the wrong product and therefore not receiving that pay up. The mark to market process, while that's, you know, more a paper gain, you know, not actually realized it's important to include that as well. Otherwise, you may be limiting yourself on your, you know, at the end of the month when you have to go through an accounting process to mark these loans or mark these locks.

**Amy Creason** [00:13:53] Indeed.



**Paul Yarbrough** [00:13:54] Given that the pay up is now exposed, the lenders can use this value in their pipeline to see the incentive before the loans even funded or even sold because they're seeing that pay up already pushed into the product, not only in the upfront pricing but in in the mark to market itself. So the reason that's important is if they are marketing this to the borrower, then they'll need to show that there is indeed a pay up here, otherwise they'll show an immediate loss. And that's not good for anybody, especially in this environment.

**Amy Creason** [00:14:32] That's exactly right, Paul.

**Paul Yarbrough** [00:14:34] The other piece of it is, is that you have to have comfort and confidence that the value is there and hedgable. These payups are market sensitive. That being said, you need to model appropriately for these. The exposure that Freddie Mac has given us in these payups for Green, Home Possible, the low loan balance, what that allows MCT to do is to track those payups over time compared to the products that you originate that do not have specified payups. And so it's important to understand how the payups will move compared to the other your base products, if you will, that way you can apply the appropriate hedge ratios. If you take a look back in history where we didn't really have the payups as clear as they are today for us, then it would be more of a guessing game of how are they moving, what is the value, considering different rate movements over time. So, so we provide those tools to MCT team to drill down into that information and to make sure that not only are you achieving the best execution when you sell that loan, you're marking the loan appropriately, but you're also hedging it appropriately over time. And then, of course, just to complete the path backwards there, you are also being able to pass down that more competitive price to the borrowers.

**Amy Creason** [00:15:56] So Chris and Paul, you've described the requirements for loan origination system integration with MCT platforms to efficiently and accurately assess loan characteristics for applicable value. To ensure all pricing value is included in the rate sheet and pushed to the borrower, MCT sources values as prescribed by investors such as Freddie Mac. And so at Freddie Mac we recognize the importance—our sellers place on seamless integrations between their various systems and with Freddie Mac throughout the entire mortgage lifecycle. Paul, would you provide our listeners with a quick overview of the MCT and Freddie Mac integrations that support their secondary market work?

**Paul Yarbrough** [00:16:42] Amy, so glad you brought that up. I mean, we're so proud at MCT to support Freddie Mac's execution through several APIs or these application programming interfaces. And by doing that, it allows us to provide products like our rate sheet services that that Chris mentioned earlier. What that allows us to do as a lender, it can come in to our platform and essentially refresh their rate sheet price that they're going to offer to their borrowers based on live market conditions. That's very important, especially in a fast moving market like we we can experience from time to time that through an integration with Freddie Mac, we can quickly refresh their product level pricing and that way they can push that to the borrowers rather quickly, which again is important because if you're offering too aggressive of a price compared to the market or if you're not offering an aggressive enough price, market is improved and you need to improve your rate sheet, we can offer that efficiency to the lenders.

**Amy Creason** [00:17:49] Timing IS everything in mortgage lending!

**Paul Yarbrough** [00:17:52] The next way we deploy one of Freddie Mac's APIs is through what's called Browse Pricing. So Browse Pricing allows a lender to take low level data, so you can have several loans within a population, call it 20 loans, 10 loans, 200 loans, whatever it is, we're going to take that loan level data and run it through Freddie Mac's browse price API, meaning we're going to be able to pull down based on product, note rate and lock term, so commitment term, what the live cash window pricing is. So that means your CON 30 LLB 85 or conventional 30 year HomePossible, all of that can exist within one tape. We're going to pull down a live price. It's very important when you're going to sell those loans to achieve a maximum price that you can sell the loan for. This also includes the Cash-Released XChange API. This program at Freddie Mac has been around a long time and it allows for a servicing released execution. That servicing released execution allows for lenders to sell loans to Freddie Mac and then immediately sell the servicing at the same time. Then our platform at MCT live takes again that low level detail. So now we're looking at even more details, not just product, not just a specified loan program and not just the term. But now we're looking at things like credit score, LTV, property type - all of those other parameters that are created within a loan are then passed through the Cash-Released

XChange, we'll call it a browse price API again, and not only pulls back that base price that you receive from Freddie Mac, but also a loan level SRP from all of the buyers in Freddie Mac's Cash-Released XChange program. And again, MCTlive! allows you to pull that in, pull that into your best ex, and now that's another point of consideration for your best ex process.

**Amy Creason** [00:20:01] That comprehensive pricing analysis is so critical for achieving best execution results.

**Paul Yarbrough** [00:20:06] That's right, Amy. One of the other APIs that Freddie Mac has provided to us is a committing API. That committing API allows us to commit to these specific products to achieve the best pricing. So we've gone through our best ex process, we've locked that loan on the front end, obviously hedged, now we're ready to commit this thing to Freddie Mac and within MCTlive!, you can now commit this loan right to Freddie Mac without ever leaving the platform. So that API again allows to commit to the specific product and the specific execution. So retain Co-issue XChange or Cash-Released XChange. The pricing comes back from that committing API, that final price, plus the commitment information like commitment date, commitment expiration date. All of that information is provided as a return in the committing API. One of the last APIs that Freddie Mac has offered us to connect to, and credit Freddie Mac, they listen to their sellers and they also listen to their SMA's and said, hey, would be great if we had these purchase advices or what Freddie Mac calls the cash settlement purchase statement. This is awesome. This allows MCTlive!, the platform, to pull those cash settlement statements directly into MCTlive! for automated processing of hedge accounting reports, cash P&L's, updating the loan origination system, and then what's exciting is to is that we could perhaps share that information with the lenders' other third parties like warehouse banks, and for more efficient processing of the loan actually being purchased from the lender by Freddie Mac. And just a shameless plug here, Amy, MCT is very proud to announce we were the first SMA to connect to this API, to provide our, our, our several mutual clients the additional efficiencies.

**Amy Creason** [00:22:09] So Paul, what kind of volume is being facilitated by these integrations between MCT clients and Freddie Mac?

**Paul Yarbrough** [00:22:16] Either through the client themselves, because remember, MCTlive! is a software platform that can be used by a lender fully autonomous from MCT or it can be used by our internal MCT traders or what we call it full service account where we do the committing for the lender at their direction. And so we see up to a hundred lenders a day committing to Freddie Mac through these APIs, through to committing API more specifically. And since MCT first connected to the committing API back in 2018, we've seen almost 140,000 commitments for over 85 billion with a B in volume.

**Amy Creason** [00:22:57] Wow. Well, I assume our mutual clients are seeing improved efficiencies in their secondary marketing activities through the MCT and Freddie Mac integrations. Is that correct?

**Paul Yarbrough** [00:23:08] So absolutely, Amy. The APIs that MCTlive! is connected to at Freddie Mac allows a lender to obtain a price from cash window regardless of the execution type via retained or this Cash-Released XChange execution. And the important point to remember there is the Cash Released XChange is a much more intense pricing exercise just because of all the data attributes needed to obtain. So the speed at which you can obtain that price and best ex it against even the same Freddie Mac execution with, but with a retained servicing option, is almost the same when it comes to analyzing the price from each execution and picking the best one that fits for the lender. Once we have all that information, we decided to commit to Freddie Mac, one of the other efficiencies that we bring in is the ability to take that data, the price, the final commitment price and the commitment data, and Chris, one of the other hats he wears here at MCT is running our integration services. So I don't know if, Chris, you'd like to comment on writing back this data or what we do with it after we commit?

**Chris Anderson** [00:24:18] Yeah, absolutely, Paul. It's awesome that we're able to accumulate all of this information into MCTlive!. But what's really great for our mutual clients is the ability to take that data and pass it into their loan origination system, data warehouse, data lake, whatever the case may be, it takes a process that was once very manual. I know you and I have spent countless hours doing that kind of data entry, and really we're able to take that loan sale commitment information and put it back in and the purchase advice or in this case, Freddie Mac's cash settlement purchase statement

and get that information. And so it's done quickly, makes your reports more timely and it's done in a much more accurate fashion.

**Paul Yarbrough** [00:25:00] So, Chris, yeah, just to elaborate on your point there, you and I hand-keying all this data into the LOS's and spending hours on it: As good and as fast as we think we are, we're not perfect. So this API, the cash settlement purchase API, allows MCT to push this data back into the database of record like Chris mentioned. And I just can't stress enough the timeliness of those reports, especially when it comes to a month-in, having accurate derivative asset accounting reports, committed help for sale information, is so important and it allows for a lender or bank credit union to close their books much faster with accurate reports not having to go back in time. And this API, again, with combining that with what Chris talked about there that right back possibility allows secondary managers, accountants, these high value employees at lenders to reallocate their time and talents to higher skilled activities in the daily operations. We also are able to automate reconciliation. Sometimes the data that gets transmitted to Freddie Mac isn't exactly what we best ex, and so that may cause discrepancies between the commitment and the purchase advice that happens every once in a while, but we need to find that out quicker so we can patch that gap sooner or collect any extra money that should have been there, so.

**Chris Anderson** [00:26:26] And I'll just add, while everything Paul said was great, the only thing I'll argue is that I actually was perfect in all my data entry, so it's Paul that you're making up for.

**Amy Creason** [00:26:36] Well, it certainly sounds like you guys are talking about working smarter and not harder. Well, thanks so much for being on the podcast today, Chris and Paul. You are a valued partner to Freddie Mac and MCT's technology and services offerings provide its clients subject matter expertise and dependable operational support, efficient and accurate automation for various secondary marketing analysis and activities and and innovative technology solutions just across the entire mortgage lifecycle. I encourage our listeners to reach out to Chris or Paul with any questions about MCT's offerings and their capabilities. In addition to this podcast, Freddie Mac and MCT have partnered on numerous occasions to provide educational white papers and webinars on various secondary marketing and mortgage servicing rights valuation subjects. You can view these informative items by visiting MCT's website, which is [mct-trading.com](http://mct-trading.com), or by visiting the Freddie Mac Single-Family website at [sf.freddiemac.com](http://sf.freddiemac.com). There you can search for integrated SMAs and once on that page scroll down to the mortgage capital trading or MCT tile. Here you'll also find MCT's contact information. You can also reach out to my team, the SMA team directly via email at [smasupport@freddiemac.com](mailto:smasupport@freddiemac.com) for additional assistance. Many thanks to our listeners for tuning in today. You are Freddie Mac's important partner in our efforts to make home possible for low and moderate income families, minority communities and other underserved populations. As always, we look forward to our continued collaboration. Be sure to look for the next installment of our Power of Partnership series soon. Thanks, partners. Have a great day.

**VO** [00:28:37] Thank you for listening to the Power of Partnership podcast under the Freddie Mac Home Starts Here Podcast Series. Subscribe to listen to future discussions with Freddie Mac leaders and the partners we work with to bring you the full benefits of our business relationship. Home starts here is available wherever you listen to your podcasts. We appreciate you rating, reviewing and sharing with your network.

