Top 10 Secondary Market Takeaways

* Variable rate loans are more profitable but do not necessarily work for Borrowers whose cash flows cannot support increasing debt service in a rate environment.
* Rate Reset Frequency impacts pricing indication. This may help the Borrower's fix the rate for a defined period but does not help the Lender's profitability.
* As you introduce duration, premiums go down. The Borrower's desire to keep Debt Service to a minimum is at odds with the Lender's desire to maximize profitability.
* If the Borrower is looking to fix the rate for 10 years, then offering a 20 year fixed rate loan could be almost as profitable in the current economic environment.
* Lenders have a choice of pricing unguaranteed on a variable rate basis whilst fixing the rate on the guaranteed portion being sold using the Multi Note Option. Keeping unguaranteed on a variable rate basis helps Lenders match fund what's on their balance sheet and blend rates like 504 loans to remain competitive.
* If you are spending 500 man hours working on a USDA B&I loan, you are leaving money on the table by not getting the highest possible prepayment penalty.
* Some Lenders are under the wrong impression that USDA does not want strong prepayment penalties. Stronger prepayment penalties increase the longevity of loans and thereby reducing subsidies is required.
* Considering the amount of time you will be spending on processing a USDA B&I loan. You are better off understanding where you will end up in terms of premiums based on the structure the borrower needs/is requesting or is necessary due to competitive pressures. Talk to Thomas USAF as we have both Lending and Buying experience to navigate the maze and yield curve.
* USDA loans are not pooled so purchase decisions are made based on individual credits on a loan by loan basis. Transparency is therefore crucial to get the best premiums. You cannot hide or reveal minimum information and expect the best price. Those who are transparent get the best prices.
* Indexes that have had a better reception with investors recently are Prime or CMT. Libor is not always truly reflective of the cost of funding. Libor was higher than Prime during the financial crisis (inverted yield curve), and was involved in a rigging scandal and was impacted more recently during Brexit. Libor is attractive to pool investors who have Libor based funding & are investing in assets floating based on Prime to capture thePrime-Libor differential spread. Libor Swap curve incorporates the future direction of interest rates, but not many banks are using it.

For Your Pricing Needs Call:

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