

Lock Desk: To Serve And Protect

Having this critical department to monitor changes in loan terms, price and rate will do more to curb revenue leakage than any other action a lender can take.

By Matt Kiker

The lock desk serves and protects the company. It serves the loan officers (LOs) and protects the margin. The very best lock desks are empowered to make business decisions, respected by the sales staff, and their judgment is upheld by management. Lock desks are important and usually imperative to maximizing profitability by controlling the price. Employing the lock desk to actively monitor changes to loan terms, price and rate will do more to curb revenue leakage than any other action a company can take.

The rules

There are two policy manuals that come into play for every lock desk. The first manual is the company lock policy, which specifies the rules for locking, renegotiating and extending lock commitments. The second manual is the lock desk exception policy, which should be reviewed and approved by the company's chief compliance officer to ensure the rules support fair lending. Within the guidelines set forth by the compliance department, the exception policy is known only to the lock desk agent, who administers the policy as they see fit.

LOs and other staff need to understand the company's rules and abide by them. Lock policies help the company move more smoothly, especially when the rules are comprehensive enough to cover the majority of sit-

uations that are likely to occur. A straightforward company lock policy should include the following:

- The requirements for locking a loan, such as the documentation required from the borrower and the loan status;
- The length of time allowed or required based on the loan type and status;
- The mechanism for requesting locks;
- The conditions that must be met before informing a borrower of the rate lock; and
- Rate lock extensions, including how many, how long and how much it will cost.

The exception policy provides guidelines for the lock desk agent

that they may use at their discretion without further management approval. Just because an exception is allowed, does not mean the exception is always given. A well-trained and experienced lock desk agent will correctly judge when an exception should and should not be given. The exception policy should include the following:

- A general list of acceptable circumstances under which an exception may be granted;
- Maximum allowable one-time and cumulative price exceptions per loan; and



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■ The documentation that is required to log the exception and the fields in the loan origination system (LOS) and/or pricing system that are to be updated for each exception.

Latitude

Every lock desk agent should be given the ability to make judgment calls without worrying too much about the consequences. With the exception policy manual in hand, the lock desk agent knows how far they can go, but they have to supply the judgment that governs when they make exceptions and when they do not. The lock desk agent should be fully aware of all the margins baked into the rate sheet and the targets as well as the minimums that are allowed.

The best lock desk agents will review all the factors that might affect a decision to make an exception. Some LOs ask for exceptions on every deal while others never do, so LOs might be treated differently. A borrower who failed to mention or intentionally omitted a fact that is tied to a loan-level price adjustment may not get a free exception, but maybe the cost can be split due to a misunderstanding or maybe the loan can still be closed with an acceptable profit at an agreeable level.

Lastly, the lock desk agent needs to be cognizant of the exceptions that are being granted, and great care needs to be taken to ensure that no race, class or gender is better or worse than another. Most companies believe they treat everyone equally, but their Home Mortgage Disclosure Act data tell a different story.

Never reverse a lock desk decision

Mistakes are made, tempers flare, and sometimes a situation takes on a life of its own that makes no sense. The natural tendency of anyone who

is not getting their way is to look up the ladder for someone who has the power to do what is desired. Too many times, management will make an exception and then communicate with the lock desk after the decision has already been made.

Overriding the lock desk is a huge mistake. At the time a manager overrides a lock desk decision, it seems like the most expedient way to take care of the problem when, in fact, it is just the opposite. A manager that overrides the lock desk will make LOs and other employees lose faith in the ability of the lock desk. The manager will alienate the lock desk by not trusting their judgment, and employees will then circumvent the lock desk altogether by using the manager for exceptions instead.

The right way to handle requests for exceptions that the lock desk did not approve is to let the employee know that the lock desk has the final say and that you will ask the lock desk to look at the exception again. In the event you have access to the system where exception notes are kept, you can pull up the loan so that you can see the reasoning behind the lock desk decision. If the lock desk made a mistake, question the lock desk agent or manager and then make the lock desk respond directly to the person who made the request. If you look at the notes and understand the reasoning, explain it to the person requesting the exception so that the person will be less likely to call and waste your time in the future.

Lock desks make mistakes, and they can learn from those mistakes with the proper on-the-job training. If an exception makes sense to the lock desk agent, but is beyond the range allowed within the exception policy, the lock desk agent has the opportunity to ask for an exception from

management. Documentation of the reasons for exceptions needs to be a part of the file so that if future exceptions are requested, users can see what has already been granted.

Lock desks prevent leaks

After a loan is locked, changes to the loan terms, characteristics, fees and rate should all be completed by the lock desk. When the LOS does not prevent changes to all of the fields that can affect the price of a loan, then a report needs to be produced showing the lock fields that have changed. The lock desk should either rerun the price scenario in the pricing engine or manually check the loan-level price adjustments that may apply as a result of the changes made. Where loan changes affect price, the lock desk must immediately alert the LO and processor for a remedy. If an exception is required, it should be handled according to the policy.

Obvious changes are often caught, like when a loan changes from a second home to an investment property. Subtle changes such as the FICO score for a newly added borrower can be harder to catch when a system is not in place to monitor key data elements. When the appraisal arrives and the value is lower than expected, the lock desk should check for a new loan amount and then re-price the loan.

Lastly, the changes that are made to price for any reason and a list of loans that have margins below the company targets should be on reports that are reviewed in detail by the secondary marketing manager each week. **SME**

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