MCT live!
BAM | Bid Auction Manager

Definitions

AOT – Assignment of Trade – In the context of the sale of mortgage loans, this is a transaction where the originator sells a loan or pool of loans to an investor while simultaneously assigning an appropriate and acceptable open TBA trade the originator has on with a broker dealer to the investor. The execution price the investor would pay the originator gets market adjusted for the movement of the trade(s) being assigned over to produce the final adjusted price. This process then eliminates the bid/ask spread that the originator would normally expect to incur from the broker dealer from pairing out of the trades themselves rather than assigning.

Bid – A price quote provided to a party that is looking to sell a position or asset. For example, to establish a position hedging new locks that are in the originator's pipeline, a secondary marketing analyst would contact a broker/dealer and ask for a "bid" on a FNMA 4.0% TBA.

Bid-Ask Spread – The difference in price between the bid and offer quotations, which strongly influences transaction costs associated with trading and hedging positions.

Broker/Dealer – A regulated entity that provides market liquidity in the form of bid and offer quotations on financial positions including TBA's.

Forward Commitment – A commitment by a seller to deliver an asset or commodity at a designated price and specified time in the future.

Hedging – An activity that protects an asset from market fluctuations by taking an offsetting position in a similar asset.

Interest Rate Risk – The risk that changes in market interest rates will negatively impact the prices of financial assets including bonds and mortgages. For example, hedging is used as a way of counteracting interest rate risk on an open mortgage pipeline.

Long Position – A position that benefits from rising prices of the asset. As an example, in the context of pipeline management the long position would refer to the open loan pipeline.

Pair Off – In the context of TBA hedging, buying back a short position and using it to directly offset a hedge position.

Short Position – A position that benefits from a decline in prices of the asset. As an example in the context of hedging, the short position would refer to the open TBA trades.

Spread – Spread is a broadly used term, but generally speaking refers to the difference in prices or yields between two assets or asset classes.

TBA (To-Be-Announced) – A forward contract to deliver or receive Mortgaged Backed Securities.

Rhiannon Bolen
Regional Sales Director
rbolen@mctrade.net, 469-360-8672