

Accessing a Better TBA Market



StoneX Joins Agile to Grow within the Broker-Dealer Community

The Brief:

Prior to the introduction of Agile, StoneX, like many broker-dealers in the mortgage-backed securities market, operated primarily via the telephone. While StoneX knew they wanted a more efficient, transparent, and cost-effective process for TBA trades, they weren't sure how to digitize a multi-step process that was slow and susceptible to human errors.

“Agile offers comprehensive access with minimal additional work throughout the day.”

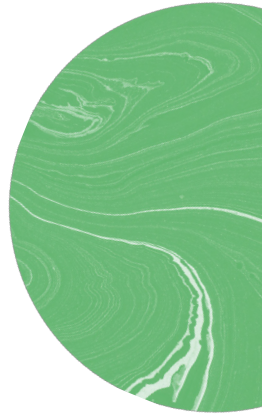
The Approach:

StoneX has become a mortgage industry vanguard by leveraging a Request for Quote (RFQ) platform for the digital exchange of TBAs. With minimal set up work required, StoneX now has access to a growing number of mortgage lenders and volume. Transactions are more efficient and reliable since moving away from the telephone. Additionally, insights from live data are helping StoneX provide sharper pricing and improved profitability for the firm.

“Agile allows customers to obtain sharper levels because you're no longer trading in a 'circle.' The trade levels are shown via platform, allowing people to trade more inside the markets.”

The Result:

Prior to utilizing Agile's platform, StoneX would have \$5MM-to-\$10MM in TBA volume per day. However, with the support of Agile, StoneX now sees daily volume in the range of \$30MM-to-\$70MM – a seven-fold increase. Beyond increased TBA flow, StoneX has improved efficiency and lowered company risk. The Agile platform has helped StoneX expand opportunities with existing clients and establish a new mortgage lender relationship nearly every week.



Interview with: Matt Johannes, StoneX, Head of Fixed Income Trading

What has your experience of trading with Agile lenders been like?

We've been opening around one new client account per week before working with Agile. At the time we had around \$120MM in open trading positions, but now we're averaging north of \$350MM. Now in terms of new client account openings, it's between \$30MM-to-\$70MM a day. A number we expect will continue growing each passing day.

“With Agile, almost every trade that we put out results in inside market execution.”

Did you have any mutual clients on the platform to start with? How many clients are you transacting with today, compared to where you started?

Prior to Agile, we had about 15 mortgage originators, and there were about three or four that had already onboarded to the Agile platform. Now, it's up to 20 clients, and we are regularly transacting with 5-10 of them per day. Prior to using this platform most of our order flow came from our high touch phone and conversation-based outreach.

What kind of increase in trades have you seen since you started trading with Agile lenders?

StoneX is primarily a specified pool shop, so as a result we focus on the collateral. We'll trade anywhere between \$200MM and \$1B MTBA's a day. Before switching to this platform we had \$5MM or \$10MM TBA flow for mortgage originators per day, now that number has risen exponentially to between \$30MM and \$70MM a day. An increase of six times over the last 6-month period.

Could you describe your process trading TBA's using the Agile platform compared to your experience trading TBA's via the phone?

I think the fixed income space, especially the mortgage market, has historically lagged when it came to technology. Just 5 years ago, every spec pool dealing with money managers, hedge funds, pension funds and banks, relies on archaic high touch methods. Typically, it would involve sending lists over to Bloomberg via email, pricing the bond, and then sending it back, while TBAs used to be done over the phone with an originator. Now, we've seen the industry shift to the digital space.

If you think about the old process I laid out, you have anywhere between 15 and 100 counterparties per day from the buy-side. If I had to pick up the phone or dial in to bid or offer on TBAs to each one of these counterparties, it effectively stops the flow of business. Even if you had a salesperson handling the calling of counterparties, they would still have to speak to the trader and then get back to them with a level. It's a multistep process that creates a lot of overlap that burns man-hours. Agile allows customers to obtain sharper levels because you're no longer trading in a "circle". The trade levels are shown via platform, allowing people to trade more inside the markets.

“The time saved by using the platform and the speed at which we can execute has helped to give us a leg up when looking to land new business.”

Do you think StoneX would have been interested in developing this business line if you had to do it all by phone, in the old fashion?

As in anything with business, the amount of time you spend on a given task translates both into revenue and P&L for the firm. If it's something that becomes super task heavy and requiring the firm to hire someone specifically to manage that process, it creates another layer where the cost may outweigh the benefits. If it's something like Agile, a relatively reasonably priced platform that doesn't require us to add another person or another layer of internal process, it becomes increasingly attractive for a firm like StoneX. We're a much smaller firm than a primary dealer, so something like Agile offers comprehensive access with minimal additional work throughout the day.

“The tickets seen and the trade counts increase weekly, if not daily, even across the counterparties we were on before we started using Agile.”

What has your experience with winning and missing trades on the platform been like in regards to the competitive bidding functionality?

Liquidity is pretty tight in the market and TBAs tend to historically trade anywhere between a plus and a tick to market. With Agile, almost every trade that we put out results in inside market execution. Every trade, bid or offer we put on is not a guaranteed win and I think that aspect makes it competitive. It's a great demonstration of the type of user on the platform, whoever's making markets on the other side besides us is definitely competing for that business.

Have you seen an increase in the number of trade requests?

Yes, we would normally see one ticket per customer a day, but since we started using the platform, we've been getting about 3 or 4 a day at any given time. This business is a bit slow moving, and most of the time you're going to have to get trades on to people and begin opening up the lines so the client can see that they trust you in both directions. The tickets seen and the trade counts increase weekly, if not daily, even across the counterparties we were on before we started using Agile.

How is your experience on winning business to particular clients?

While it can vary day-by-day and change based on the current state of the market we found that the time saved by using the platform and the speed at which we can execute has helped to give us a leg up when looking to land new business.

What kind of impact has the platform had on your bottom line?

While there are several factors that come into play when looking at the impact on the bottom line, the biggest benefit has been digitizing out-of-date manual processes. We didn't have to add a trader to do this, no costs on our balance sheet, and simply put, all we have to do is maintain capital to support the business. There is enough flow going both directions, ultimately netting out some of that risk from a dealer perspective. Furthermore in March of 2020, at the start of COVID, the markets experienced extremely high volatility, multiple standard deviations from the norm. Through the Agile platform and our internal



risk metrics, we do a good job of staying on top of that and limiting counterparty exposure. Most of the counterparties we've seen from Agile have been fairly well capitalized, have a good sense of the markets, and a deep respect for the industry.

How has using Agile influenced your relationships or communication with clients?

The more electronic it gets, the more robotic and less high touch it gets, which has resulted in a process that has become very transactional. However, the conversations you do have with clients have become more high level. Which is great in my opinion, as you end up getting more out of the situation. Using Agile allows for deeper and more efficient conversations with clients.

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Are you excited/interested in the MBS pool bidding?

StoneX has seen the platform, but we haven't bid a pool yet. The biggest issue when it comes to MBS pool bidding is that origination lists are different for every single person as they have their own internal format – resulting in additional manual effort. I think having a centralized location

creates a more seamless process and allows for better execution, ultimately, improving liquidity on the spec front for many originators. Having a standardized methodology for this process will be important going forward.

How has your experience been working with the Agile team?

It's been great and our teams have a good rapport. In this business, you need to respond quickly and the Agile team is always on top of their stuff. We never have an issue getting in contact, which is very important to us.

Do you feel being on the Agile platform and working with Agile pushed your company to innovate and grow?

Yes, at StoneX we see digital solutions like Agile to the slower high touch processes of the past as the future of our business. We are continually looking for ways to digitize our processes and provide a seamless digital experience for all of our users. Firms are getting smarter and smarter, especially buy-side clients.



Matt Johannes, StoneX
Head of Fixed Income Trading

Matt is an industry veteran with ten years of experience trading mortgage-backed securities as an agency MBS trader at StoneX.

