



Loan
PARTICIPATIONS
by  alloya

LP Q3 . 2021 QUARTERLY

Alloya's Quarterly
Loan Participation Newsletter

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ALLOYA'S STRATEGIC GOALS

At Alloya, we ask ourselves every day, "How can we support credit union success?" The answer always ties back to Alloya's three strategic goals: *People, Member Service and Financial Performance and Compliance.*

When Alloya created the Loan Participation Platform, those three goals underpinned every decision we made. When the platform launched in September 2020, it was a milestone achievement in our ongoing mission to support credit union success.

In support of this mission, and as an added perk of partnering with Alloya for your loan participation needs, we will now be publishing a quarterly newsletter: *LP Quarterly*. Starting with this inaugural issue, you will notice that those same three strategic goals lay the foundation for the content. *Continued on page 2*



People

First, you will hear from each member of Alloya's Loan Participation team to help you get to know us better. The technology behind the Loan Participation Platform is incredible, but credit unions are a people-focused movement. It's the people that drive Alloya, just like the people who drive your credit union.

Member Service

Additionally, we will deliver data-driven insights and transparency – a service that has been historically absent in the marketplace. At the crux of it all, a loan participation is a partnership, and a good partnership is based on the transparency of everyone involved.

Financial Performance & Compliance

Just like our Loan Participation Platform, the *LP Quarterly* will contain tips and best practices to help advance your credit union's bottom line and ensure you remain compliant with applicable regulations.

MEET ALLOYA'S LP TEAM

Alloya's engaged employees and strong culture are at the center of everything we do. With that in mind, we would like to introduce you to the team that manages the Loan Participation Program at Alloya.



BILL PATON

VP, Loan Participations & Lending

I've worked at Alloya for the last 13 years, and I'm fortunate to say it's the only career I've ever known! I am based out of Alloya's Albany, New York location, and have spent my life around the State's Capital Region. My wife, Luda, is a controller and we've been known to discuss finance at parties and subsequently bore our friends to sleep. I'm a lifelong sports fan and have played sports from the moment I could walk through my college years. These days, I'm an armchair quarterback. We are raising two beautiful kids, Esmé, 5, who seems to think she is an actual princess. Although she's a princess who's not afraid to get dirty and play all types of sports. Our son, Ezekial (Zeke), 2, enjoys jumping off furniture, playing with trucks and listening to rap music. His great taste in music comes from his mother.



RYAN McCARROLL

VP, Loan Participations

I have worked at Alloya for the past 10 years out of Westminster, Colorado. My wife, Lauren, also works in the financial industry. We partake in all the typical Colorado hobbies like skiing, biking and climbing – that is, when we aren't chasing our two kids. We have a four-year-old daughter named Cameron. Like most girls her age, she is obsessed with *Frozen* and is currently learning to ski. Our son, Ethan, is two years old. He has quickly proven himself to be the mischievous member of the family and always manages to make us laugh.



BRIAN MYERS

Loan Participation Consultant

I have been managing the day-to-day operations of Alloya's Loan Participation Program since 2018 – assisting over 200 credit unions with their participation needs. As a Loan Participation Consultant based out of Alloya's Southfield, Michigan location, I facilitate onboarding, pool creation, pricing and marketing of loan pools. Once buyers are found, I oversee the transactions from start to finish while guiding clients through Alloya's new online Loan Participation Platform. When not assisting credit unions with their loan participation needs, I enjoy golfing and spending time with my wife and two children, Noah (4) and Lily (2).

TECHNOLOGY WITH A PERSONAL TOUCH

The Loan Participation Platform functions as a fully-automated online marketplace for the purchase and sale of loan pools. A process that took weeks now takes days, and we are thrilled to bring this service to our members.



In addition to facilitating the loan sale, the Loan Participation Platform now enables Alloya to manage the monthly reporting/remittance and provide analytics on the pools – including yield, CPR and charge-off tracking. Alloya also generates a call report for buyers to help make the participation process as easy as possible.

We are revolutionizing the way loan participation transactions are completed, but without losing sight of that personal touch you expect from Alloya. Bill, Ryan and Brian are here to assist you every step of the way.

Economic Outlook on Loans for Sellers and Investments for Buyers

In addition to loan participation trading data, we will provide insight into the overall lending outlook for credit unions. Through performance tracking on the platform, Alloya will have performance data across tens of thousands of loans from across the country. This allows us to share aggregate data on trends in the credit union markets. This data will also be synthesized with data on our ABS portfolio, so credit union leaders gain actionable insights.

Special note to potential selling credit unions – With the influx of deposits over the past year, you may think there's no real need to sell loans. But we encourage you to consider otherwise! First and foremost, you'd be fulfilling an enormous need in the marketplace and helping credit unions nationwide. Secondly, selling loan participations is a potential source of fee income for your credit union. While Alloya makes trades fair and equitable, that does not mean the sale is unprofitable for sellers. The market dictates the price on pools, and right now, the market is favoring higher premiums on pools, thus more fee income to your bottom line. Lastly, selling a loan is a great option for circumventing capital constraints and potential liquidity issues. More and more credit unions have told us that their examiners are imploring them to "test the process" and sell a pool of loans. We think this is a strong approach to your liquidity plan and we agree with the examiner's recommendation. While it may sound cliché, loan participations are a true win-win for both buyers and sellers, and we ask that you consider helping everyone win with the sale of a pool.

Credit unions need products and services that improve their financial performance and balance sheet management. Fortunately, loan participations allow credit unions with diverging needs to assist each other in mutually beneficial ways. Keeping credit union assets in the industry ensures that credit unions of all sizes remain financially competitive and compliant with policies and regulations. Our Loan Participation Platform reduces the burden of managing the loan participation portfolio and directly supports credit union success by providing a product that helps keep our movement healthy and vibrant.

The Loan Participation Platform also creates an easy and efficient way for these transactions to transpire one-to-many. In the loan participation marketplace, it is common for selling institutions to sell their loans to as few buyers as possible in an effort to reduce the transaction's complexity. Unfortunately, this means larger institutions with more purchasing power buy up the lion's share of the available pools, leaving smaller institutions empty-handed. At Alloya, we strive to create a more equitable marketplace where every credit union can thrive and remain competitive. When we designed our platform, we made it easy for sellers to divide their pools into smaller sizes without adding complexity to the transaction, so buyers of all sizes can have a seat at the table.

Market Overview and Quarterly Recap

Transparency is a fundamental goal of the Loan Participation Platform. Too often the loan participation marketplace data is obscured by brokers who are looking to extract as much value as possible from credit unions for their own personal gain. At Alloya, we are accountable to credit unions. That's why we are delivering transparent market data and insight to help our members make better-informed loan participation purchase and sale decisions.

In each issue of *LP Quarterly*, this section will review pool performance, pricing, spreads and comparisons to other options available to credit union leaders.

Today, we will review 2020 yield trends by pool type. It's important to note there are five key attributes that contribute to a loan participation's yield project. *Continued on page 5*

LOAN PARTICIPATIONS (SIMPLIFIED)

Matches made easy.
Participations made painless.

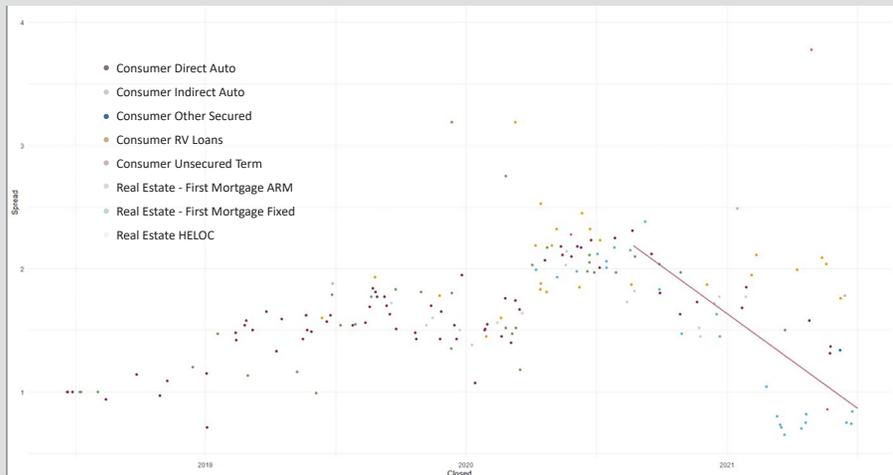
www.alloyacorp.org/loanparticipations

- 1 Weighted Average Coupon (WAC):** The weighted-average gross interest rate of the underlying mortgages in the loan participation being offered.
- 2 Price:** Sometimes referred to as the premium. The price per \$100.00 to purchase the participation. Example: If the purchase price is \$103.50, the price that the investor will pay to purchase \$1,000,000 would be \$1,030,500 (3.50% over the par).
- 3 Charge-off Rate:** Annual charge-off rate of the selling institution for the loan type being sold, based on the previous two years.
- 4 Prepayment Speed (CPR):** Alloya will account for an assumed prepayment speed based on the type of pool being sold. This figure will fluctuate based on the actual figures we are seeing in the marketplace.
- 5 Servicing Fees:** Servicing fee charged by the originator (typically 25 basis points) and Alloya's buyer fee of 20 basis points.

Market Overview and Quarterly Recap (Cont'd) – Using the variables above, we will calculate the projected yield and weighted average life of every pool sold through the platform. Assuming the estimates are accurate for charge-off and prepayment, the projected yield is the actual yield an investor can expect to receive on the purchased pool.

Loan participation demand has been high since early 2019. This strong demand continued into 2020 and ramped up substantially in the second quarter (Q2) as COVID-19 took hold. As credit unions watched their liquidity increase and investment rates plummet, they raced to purchase loan participations to round out their balance sheets with reasonably yielding assets. This strong demand led to an imbalance in the loan

participation market that sent premiums skyrocketing and yields tumbling. This chart shows the projected spread on various loan participation types.



With 2020 now in the rearview, loan participation demand has stayed strong in 2021 and inventory has remained limited. With this in mind, Alloya is always looking to connect with new credit union sellers to help satisfy the demand of our buyers and present them with more purchase opportunities.

Celebrating 10 years of Alloya at our seventh Symposium.

You won't want to miss it!

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To close out every *LP Quarterly*, the Loan Participation team will share “one thing” they consider to be most important in the current state of the market.

BILL'S ONE THING

Step outside your comfort zone – but not the credit zone. You may prefer to purchase auto loans, but in today's market, auto loans can be hard to come by. Don't be afraid to consider other loan types, especially if those loans meet your credit requirements.

RYAN'S ONE THING

Buying and selling loan participations can be a great way to rebalance your portfolio. If you have a high concentration in one asset class, consider selling from that portion and buying in a different sector. This is particularly true for credit unions who have a well-established lending niche.

BRIAN'S ONE THING

The loan participation process can seem complex and overwhelming, but it does not need to be. Alloya's Loan Participation team is here to help you every step of the way, and our new Loan Participation Platform makes the process quick and easy.

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We hope you enjoyed the first-ever edition of *LP Quarterly* and will consider reading again when we release another edition in the fourth quarter. However, please note this publication will not be sent to you automatically next time around! To receive the next issue, please subscribe on Alloya's website at www.alloyacorp.org/subscriptions! Not only can you look forward to a fresh new publication in October, you'll also be entered for a chance to win a pair of Apple AirPods Pro!