Loan PARTICIPATIONS by alloya

LP QUARTERLY

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Alloya's Quarterly
Loan Participation Newsletter

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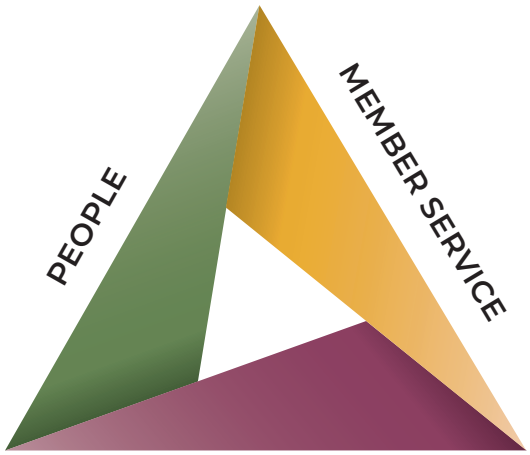
VOL 6

ALLOYA'S STRATEGIC GOALS

At Alloya, every decision is grounded in our mission to support credit union success and our dedication to three strategic goals: **People, Member Service, and Financial Performance and Compliance.** Alloya's quarterly loan participation newsletter is no exception.

We hope you enjoy this edition of our quarterly newsletter.



GET TO KNOW ANTHONY MINNITI

Senior Data Analyst

Here we grow again! We are glad to share Alloya recently welcomed another professional to the Capital Markets team. Meet Anthony Minniti! Based in Naperville, IL, Anthony has a deep understanding of financial data and markets through his experience in the Federal Home Loan Bank system. Anthony also holds his Master of Business Administration, with a concentration in business strategy and decision-making, from DePaul University. Anthony is excited to support credit union success through Alloya's Capital Markets Program.

WHAT'S NEXT FOR LPQ?

When we launched Alloya's quarterly loan participation newsletter, our mission was to deliver transparency that was previously missing in the market. Every quarter we have asked ourselves, "What more can we do? What additional insights can we provide to our members and the users of our Loan Participation Platform?"

Your response to the LP Quarterly has been overwhelming in the best way. The more we have shared, the more you have wanted to hear. More information. More insights. More commentary. More tidbits. So, with that in mind, we're thrilled to announce we're upping the ante next year.

A new capital markets primer will hit an inbox near you starting next year! Loan participations will remain a central focus of the monthly publication, but we'll also provide insights on secondary markets, loan pricing, subordinated debt and other data in an effort to deliver even more value to our readers.

Before we get started, we'd love to hear which information you find most meaningful. For example, would you like regular updates on our current loan rates and how they compare to the national averages? Tell us what information you want to receive, so we can not only meet, but exceed your expectations!

Submit your ideas to **capitalmarkets@alloyacorp.org.**

We've been utilizing Alloya's Loan Participation Platform since it first launched two years ago and it has been a game-changer for our balance sheet, financial statements and concentration risk concerns. With Alloya's program, loan pools are custom-built so they're accessible to credit unions of all asset sizes. The online platform is efficient and easy to use. Plus, the professionals on Alloya's Loan Participation team are true experts. They know the process inside and out, and help each credit union navigate through it. I would encourage you to explore the opportunities in the platform.

- RAINY THOEN, CEO

When the going gets tough...

The tough get going, right? In other words, when we're confronted with trials and tribulations, we can choose to view them as an opportunity to double down and work harder. How on earth does this relate to loan participations and capital markets? Stay with us.

In the past 24 months, credit unions have faced a slew of obstacles. First came the great deposit influx of 2020. Credit unions had more deposits than ever before without a worthwhile place to invest them. Then, as quickly as the deposits came in, credit unions originated loans at unprecedented speed. These loans were generally made at below-market rates because credit unions were doing what they do best: serving their members. But that has left credit unions in a precarious position.

Credit unions are now holding historically high levels of loans on their balance sheet. For some credit unions, this means new loans can't be originated because they don't have the funds or balance sheet capacity, hindering their ability to serve their community. This is where the "people helping people" mantra can really shine.

While liquidity is the tightest it's been in well over a decade, there are still many credit unions with capacity to buy loan participations. Any credit union with funds that are not earmarked for their own loans should seriously consider purchasing loan participations from another credit union. Not only for personal benefit, but also to benefit the overall system.

Buyers can now expect loan participation yields of 6+% for a standard auto loan participation, which is nearly three times greater than just a year ago. Additionally, every dollar purchased helps another credit union – making this a win-win for each credit union, but more importantly, a win for the members that can be served.

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 deliver transparent market data and insight to help our members make better-informed loan participation purchase and sale decisions.

RATES & SPREADS

Spreads on loan participations remain near all-time highs. With the continued march higher in Treasury rates, the net yield on loan participation purchases are at all-time highs. Spreads have been pushed higher primarily due to lack of investor demand. Sellers have continued to increase yields to attract credit union investors who are experiencing strong organic loan growth and tight liquidity. For those with sufficient liquidity, there are many great values available. In particular, due to the liquidity premium, loan participations are a very attractive option compared to originating indirect auto loans.

LOSS & PREPAYS

This quarter saw another moderation in overall prepayment activity. This is not surprising as refinance activity has been muted alongside increases in market rates. Losses are also continuing to trend well below initial expectations across the entire loan participation portfolio. This is the case for all asset classes.

VOLUME

While this quarter has seen a decrease in overall volume, we continue to trade approximately $100 million per month in loan participations. Additionally, Alloya is now working with over 45 sellers and has access to significant inventory. We have many sellers that stand ready to create custom pools for interested buyers.

LOOKING AHEAD TO 2023

We hope you enjoyed this final edition of the LP Quarterly and will consider reading along when we launch our forthcoming capital markets newsletter in 2023. Until then, we wish you a safe and happy holiday season!

THE 1 THING

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 PATON
VP, LOAN PARTICIPATIONS, LENDING & SUBORDINATED DEBT

BILL'S ONE THING

Reprice loans constantly. We have found that credit unions who reprice loans at least weekly are having the best experience selling loans. Those that do not are stuck holding below-market loans on their balance sheet or having to sell at a discount. If you reprice regularly, especially in an upward market, you'll be originating loans at a higher yield while helping your balance sheet and interest income.

RYAN McCARROLL
VP, LOAN PARTICIPATIONS

RYAN'S ONE THING

If your credit union is active in your local indirect auto market, consider comparing current auto loan participation offerings. In many cases, auto pools are trading at significant discounts to the dealer fees paid by credit unions. While there may be additional benefits to indirect members, the current participation market for auto loans is more economically attractive.

BRIAN MYERS
CONSULTANT, LOAN PARTICIPATIONS

BRIAN'S ONE THING

Yields continue to climb as the buyer market continues. Auto yields are approaching 7.00% with most pools being sold near par. Low premiums allow buyers to take advantage of the current yields with minimal prepayment risk. The minimum purchase amount on most opportunities is below $500,000, so we have options for credit unions of all sizes.

Our job is to make your job **easier.**