LOANSTREET®

Glossary of Lending & Loan Participation Terminology

Introduction

Welcome to LoanStreet's glossary of lending & loan participation terminology. This document intends to serve as a comprehensive resource to define common terms, phrases, and acronyms used across LoanStreet's offering and in the broader lending industry.

These terms are defined through their use by LoanStreet's capital markets, trading, reporting, and analytics teams, and are subject to change accordingly. To effectively navigate this document, please utilize the chapter and term links embedded throughout.

Sections

Accounting & Finance

ASSET-BACKED SECURITY (ABS)	An asset-backed security (ABS) is a type of financial investment that is collateralized by an underlying pool of assets—usually ones that generate a cash flow from debt, such as loans, leases, credit card balances, or receivables.
ABSOLUTE PREPAYMENT SPEED (ABS)	Absolute Prepayment Speed (ABS) is the monthly prepayment expressed as a percentage of the original principal amount.
ACCOUNTS RECEIVABLE	Accounts receivables are legally enforceable claims for payment held by a business for goods supplied or services rendered that customers have ordered but not paid.
ALLOWANCE FOR LOAN LOSSES	Allowance for loan losses is a calculated reserve that financial institutions establish in relation to the estimated credit risk within the institution's assets.
ASSET LIABILITY MANAGEMENT (ALM)	Asset and liability management (ALM) is the practice of managing financial risks to minimize the mismatches between the assets and liabilities as part of an investment strategy in financial accounting. ALM sits between risk management and strategic planning.
AMORTIZATION	Amortization is the reduction of a balance over time. In the case of a level-pay fixed-rate mortgage, this creates loan payments of equal periodic amounts calculated to pay off the debt over a fixed period, including interest on the outstanding balance. In the case of balloon loans, the amortization period ends with a remaining balance resulting in balloon payment due (common in commercial loans). Amortization can also be applied to balances such as dealer reserves or premiums, or to costs such as origination costs. In this case, an accountant can choose from several bookkeeping methods to amortize a premium or accrete a discount associated with their asset.

Accounting & Finance

ADJUSTABLE-RATE MORTGAGE (ARM)	An adjustable-rate mortgage (ARM) is a loan with a variable interest rate that's tied to a specific benchmark. Often the loan has a fixed interest rate for a period of time prior to the adjustable period. During the adjustable period, an ARM loan will reset periodically, often annually or semi-annually, at a fixed spread over an index. Several different indices are used by lenders, including Prime, SOFR, 1-Year Treasury and others. Periodic and lifetime caps and floors limit how much the rate on the loan may move.
BILATERAL AGREEMENT	A bilateral agreement is a form of credit arranged between a borrower and a single lender: by definition, there are only two parties to the loan. The credit terms established by the lending enterprise are usually associated with lower complexity for lenders and are less challenging to administer. A bilateral agreement in the context of a loan participation is the sale of a portion of a loan to a single other co-lender or counterparty as opposed to a syndication or club deal that may have many co-lenders.
BORROWER	A borrower is a person or business that receives money from a lender with the agreement to pay it back within a specified period of time.
BUYER	A buyer is an institution who buys part or all of a loan from a seller.
COMMERCIAL REAL ESTATE (CRE)	Commercial real estate (CRE) loans include loans secured by liens on hotels, warehouses, apartment buildings, industrial sites, leaseholds, forest tracts, land sales contracts, construction project loans, and—in the states that consider them real property—oil and mineral rights.
COUPON	The Coupon is the interest rate on the loan paid by the borrower, expressed as a percentage rate per annum.

Accounting & Finance

CROSS RECEIPT	Cross receipt is a receipt among the issuer and the lead underwriter at the closing of a debt or equity transaction in which the issuer acknowledges receipt of funds in payment for assets and the lead underwriter acknowledges receipt of assets or, in the case of global securities, their interests in the global securities.
DEFAULT	Default is the failure to fulfill a duty or promise as specified in the Credit Agreement, Promissory Note and/or Deed of Trust.
DIRECT LOANS	Direct loans refers to loans originated directly from a credit union to the credit union's member or future member.
DURATION	Duration is a metric similar to WAL but rather than the weights being the principal receive each period, it is the present value (at the yield) of the total cashflow received each period. There are several minor variations to this including Macauley's duration, Modified Duration and DV01 (also called PVBP). For the mathematically inclined, DV01/PVBP is the derivative of price with respect to yield. See also Convexity.
FINTECH	Fintech, a portmanteau of "financial technology," refers to firms using new technology to deliver financial services. Artificial intelligence, blockchain, cloud computing, and big data are all regarded as examples of fintech. LoanStreet is an example of a Fintech organization that facilitates loan management as well as buying or selling a loan participation.
INDIRECT	Indirect refers to loans that come through a point-of-sale process such as a car dealership or other venue that has your credit union as one of their network lender options.

Accounting & Finance

LOAN PARTICIPATION	A loan participation is an arrangement under which a lender originates a loan to a borrower and then sells a portion of that loan to one or more co-lenders.
LOAN POOL	A loan pool means a group of loans intended to be sold or transferred together, often through a loan participation. Loan pools are usually made up of similar assets, i.e., a pool of auto loans or mortgages.
LOAN UNDERWRITING	The analysis of risk and the decision whether to make a loan to a potential borrower based on various credit metrics such as credit score, employment, assets, income and other factors. The metrics will vary depending on the type of loan and borrower (business vs individual).
NON-BANK ORIGINATOR	A non-bank originator is a financial institution that lends money but doesn't operate as a chartered-bank or credit union. It does not offer deposit, checking, or savings services.
OUTSTANDING PRINCIPAL	Outstanding principal refers to the remaining amount of the original principal balance of a loan, plus any capitalized interest.
PLATFORM	Platform is a term used to describe the website and infrastructure behind the website that, in the case of LoanStreet, connects buyers and sellers of loan participations.
PORTFOLIO MANAGEMENT	Portfolio management is the selection, prioritization and control of an organization's programs and projects, in line with its strategic objectives and capacity to deliver. The goal is to balance the implementation of change initiatives and the maintenance of business-as-usual, while optimizing return on investment.
PREMIUM/ DISCOUNT	A premium or discount is the difference between the sale price of an asset and its face value (par amount). A price greater than the face value is referred to as a premium, while a price less than the face value is a discount.

Accounting & Finance

PREPAYMENT

Prepayment is the early repayment of a loan by a borrower, in part or in full. Partial prepayments are also referred to as a curtailment since, if the borrower continues to make their regularly scheduled payments, the loan pays off early, i.e., it is curtailed. Prepayments are often the result of the borrower refinancing, but can also be a result of the sale of the asset.

PREPAYMENT MODEL

A Prepayment Model is an algorithm used to determine the rate at which a loan or pool of loans will prepay or repay prior to the maturity date.

PRICE

The Price is the cost as a percentage of par value of the loans to be purchased. For example, a price of 101 means that for every $100 of principal purchased the buyer must pay $101, not including accrued but unpaid interest.

PRINCIPAL

The principal is the amount of debt, exclusive of interest, of a loan.

SERVICING SPREAD

Servicing Spread is the fee charged by the originating lender for servicing the loan. The Servicing Fee is typically paid by reducing the Coupon passed on to the participation purchaser (the Net WAC). For example, a 25 basis point Servicing Spread for a pool with 3% Gross WAC means the buyer receives 2.75% Net WAC and the seller keeps the remaining 0.25%.

Analysis

CONVEXITY

Convexity measures the change in duration for a change in yield (the second derivative of price with respect to yield). Most securities and loans have positive convexity wherein the price rises at an increasing rate when yields decline. Loans with embedded options, most notably mortgages, will often exhibit negative convexity as a result of the increasing likelihood of borrowers prepaying their loans, returning the face value of the loan earlier than they would otherwise. This limits the upside for the price of the asset. Conversely, as rates rise, early repayment slows, extending the return of principal, resulting in a more rapid decline in price than would otherwise occur.

COST BASIS

Cost basis is the original value of an asset for tax purposes, usually the purchase price. This value is used to determine the capital gain, which is equal to the difference between the asset's cost basis and the current market value. The term can also be used to describe the difference between the cash price and the futures price of a given commodity.

CONDITIONAL PREPAYMENT RATE (CPR)

Conditional Prepayment Rate (CPR) is a financial metric that measures the rate at which borrowers prepay or pay off a portion of their outstanding loans, usually mortgages, over a specific period. It is expressed as an annualized percentage of the outstanding balance of the loan at the beginning of the period after taking into account any scheduled amortization of principal to occur that period.

CUMULATIVE INCOME

Cumulative income is calculated over a specific period, usually a fiscal year. It includes all revenues generated minus all expenses incurred during the same period.

Analysis

DEBT SERVICE COVERAGE RATIO (DSCR)

Often used in connection with a commercial loan, the Debt Service Coverage Ratio (DSCR) is a financial metric used to assess a property's ability to generate enough cash to cover its debt service obligations. These obligations include interest, principal, and lease payments. Many lenders consider a 1.25 DSCR to be the minimum level at which they would extend credit.

DEBT-TO-INCOME RATIO (DTI)

The DTI ratio is generally the ratio of the monthly debt service, interest plus principal (from either the applicable loan obligation or all known obligations), to the borrower's monthly gross income.

DUE DILIGENCE

Due diligence is the evaluation of a prospective investment, in particular, the evaluation of the counterparty/lender. This is an important exercise in any loan transaction, whether it be the original underwriting or evaluation of a loan participation, as it allows the lender to make an informed decision as to whether it should lend money to the borrower and, if so, on what terms.

FORECASTING

The act of predicting the future, a process that involves examining the past, interpolating and extrapolating between and beyond observations, making assumptions and educated guesses as many unforeseen factors can influence events. In the case of a loan participation, this would include predictions of the likelihood that any loans in a pool will prepay or default, and should they default, the time to completion of the liquidation process and any recoveries that are made.

FREQUENCY

Frequency is the rate at which an event occurs. In the case of a loan, this will often be the timing of when payments are due, usually monthly, but can also refer to reset timing in the case of adjustable-rate loans (ARMs) or other periodically occurring events.

Analysis

GROSS WAC

The Gross WAC is the WAC before deducting the Servicing Spread charged by the originating lender.

INTERNAL RATE OF RETURN (IRR)

See ***yield.***

Internal Rate of Return (IRR) is a calculation based on the cashflows of an asset, such as a loan participation, including the initial purchase, any other outgoing cashflows, and all incoming cashflows, such that the present value of all cashflows based on the timing of those cashflows at the IRR is 0. The IRR therefore gives a measure of the profitability of an investment with a negative IRR being a loss, 0 being breakeven and positive being a gain.

LOAN-TO-VALUE RATIO (LTV)

Loan to Value Ratio (LTV) is a financial metric that represents the ratio of a loan amount to the appraised value or purchase price of the asset or property being lent against. In general, the LTV at inception of the loan is measured, however, updated LTVs are sometimes also used where appropriate. LTV is commonly used by lenders, such as banks and mortgage companies, to determine the risk associated with a loan and to make lending decisions.

OFFERING SHEET

An offering sheet is a summary of an offering prepared by LoanStreet's Capital Markets desk. The offering sheet will include sample yield, WAL and modified duration calculations under several scenarios, as well as stratification tables and graphs of several important loan characteristics. It's important that a potential buyer of the pool do their own due diligence and return analysis and not rely solely on the offering sheet.

WEIGHTED AVERAGE LIFE (WAL)

Weighted average life (WAL) is the average amount of time, usually expressed in years, for which each dollar of unpaid principal on a loan or mortgage remains outstanding.

Analysis

WEIGHTED AVERAGE CREDIT SCORE (WAVG)

Weighted Average (WAVG) Credit Score is an average credit score where each observation is weighted by the outstanding principal balance of the associated receivable. This excludes receivables with respect to which the obligor is a business account and receivables for which no credit score score is available. In general, the credit score will be the original credit score of the borrower.

WEIGHTED AVERAGE NET INTEREST RATE

Weighted Average Net Interest Rate is an average net interest rate where each observation is weighted by the outstanding principal balance of the associated receivable.

WEIGHTED AVERAGE REMAINING TERM (WART)

Weighted Average Remaining Term (WART) is an average remaining term where each observation is weighted by the outstanding principal balance of the associated receivable. Note that this is a contractual remaining term and will not reflect any curtailments on a loan.

WEIGHTED AVERAGE LIFE (WAL)

Weighted average life (WAL) is the average amount of time, usually expressed in years, for which each dollar of unpaid principal on a loan or mortgage remains outstanding.

YIELD

Yield is the internal rate of return (IRR) for an asset purchase, such as a loan participation, based on the purchase price, including accrued interest, and any subsequent projected cashflows to which the buyer is entitled. The IRR also takes into account the timing of these cashflows. The results will usually be annualized either into a monthly yield or a semi-annual bond-equivalent yield.

Reporting & Payments

AUTOMATED CLEARING HOUSE (ACH)	The Automated Clearing House (ACH) is an electronic funds transfer network that enables direct money transfers between participating bank accounts and lenders.
ACCOUNTS PAYABLE	Accounts payable is money owed by a business to its suppliers shown as a liability on a company's balance sheet. It is distinct from notes payable liabilities, which are debts created by formal legal instrument documents.
RECONCILIATION	Reconciliation is the process of ensuring that two sets of records are in agreement.
REMITTANCE	Remittances are the transfer of funds between parties.
REPORTING	Reporting is the process of generating reports, collecting data from buyers and sellers, submitting remittances and other administrative tasks. In the context of LoanStreet's services, reporting refers to the automation and facilitation of these processes.
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REPORTS	A report is a form which sets forth, among other things changes in principal balances, interest accruals and payments, losses, recoveries, as well as loan status that occurred during the reporting period.
SERVICING RETAINED	Servicing Retained means that the originating lender continues to service the loan, including collection of payments.

Reporting & Payments

SYNDICATION

A syndicated loan, or syndication, is one that is provided by a group of lenders and is structured, arranged, and administered by one or several commercial banks or investment banks known as lead arrangers.

TERM

The term is the period of time from the loan's origination date to maturity date.

WIRE REPORT

A wire report is a common way to document money or assets that have moved from one party to another via wire transfer.

LoanStreet Terminology

CLICK-TO-REMIT

Sellers on the LoanStreet platform can "click-to-remit" to distribute funds to co-lenders directly within the LoanStreet platform. This fully automated process removes the potential for human error in the remitting process.

DISTRIBUTION REPORT

A LoanStreet distribution report summarizes the disbursement of assets from a fund, account, or individual security to an investor.

OFFERING

An offering is an opportunity available on the LoanStreet platform. This may include pools comprised of loans from a credit union, bank or non-bank originator, lender-of-record opportunities, bulk sale opportunities as well as opportunities to buy or sell a loan participation.

PERFORMANCE ANALYTICS

Performance Analytics is the name for a suite of tools available on the LoanStreet platform that enables buyers and sellers to evaluate various performance metrics of any loan participation they have purchased or sold. These metrics include returns, revenues, delinquencies, losses, composition (breakdown by credit score, geography, etc.) and other critical measures of individual loan participation as well as loan portfolio performance.

PORTFOLIO REPORT

A LoanStreet Portfolio Report is any report that summarizes portfolio information pertaining to any loan participation purchases or sales managed on the LoanStreet platform.

Regulatory

CURRENT EXPECTED CREDIT LOSSES (CECL)

Current Expected Credit Loss (CECL) is an accounting standard that estimates future credit losses. As of 2023, CECL is now the accounting standard for the financial reporting of all federally insured credit unions. This may also be found in the context of LoanStreet's CECL reporting tool for loan participations.

NATIONAL CREDIT UNION ADMINISTRATION (NCUA)

The National Credit Union Administration (NCUA) is a federal independent agency of the U.S. government that both regulates and provides deposit insurance for credit unions. In the United States, the NCUA is one of two agencies that provide deposit insurance to depositors, the other being the Federal Deposit Insurance Corporation (FDIC), which insures commercial banks and savings institutions.

NCUA REGULATION 701.22

This section establishes the requirements a federally insured credit union must satisfy to purchase a loan participation. This section applies only to a federally insured credit union's purchase of a loan participation where the borrower is not a member of that credit union and where a continuing contractual obligation between the seller and purchaser is contemplated. Generally, a federal credit union's purchase of all or part of a loan made to one of its own members, subject to a limited exception for certain well capitalized federal credit unions in § 701.23(b)(2), where no continuing contractual obligation between the seller and purchaser is contemplated, is governed by § 701.23 of this part. Federally insured state-chartered credit unions are required by § 741.225 of this chapter to comply with the loan participation requirements of this section. This section does not apply to corporate credit unions, as that term is defined in § 704.2 of this chapter. Click here to read the full regulation.

About LoanStreet

LoanStreet is modernizing the lending industry for financial institutions of all sizes. A strategic partner to over 1,300 financial institutions, LoanStreet is the first fully-integrated, online platform that provides efficient, transparent and robust tools for lenders of all sizes to administer and scale the loans on their balance sheets, connect with partners and effectively manage risk.

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