

# State of the Loan Participation Market

+2023 Outlook



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“I deeply believe that fintech is integral to the ongoing success and viability of the credit union system. When I think about fintechs and how integral they are to our system, nowhere is that more apparent than by wonderful fintech providers such as LoanStreet. It is tools like LoanStreet that will help our credit unions endure and meet challenges head on.”

**Honorable Rodney E. Hood**  
Board Member, NCUA  
LoanStreet Virtual Forum 2022

# Letter From the CEO



Adapting to rising rates and market volatility has proved challenging for our industry in 2022, and as economic uncertainty persists, balance sheet management has never been more critical to the health of credit unions, banks and other financial institutions.

Despite the ongoing headwinds, there are reasons to be optimistic. For instance, growing adoption of financial technology by credit unions and banks provides access to new financial tools enabled by technology to help them manage through challenging times. Specifically, technology-enabled access to loan participations may be one of the most critical enhancements that all credit unions and banks now have access to effectively and efficiently manage their balance sheet.

Loan participations, with the benefits of greater portfolio diversification and balance sheet agility they deliver, were once only available to those institutions with significant resources, relationships and scale. Since the founding of LoanStreet nearly 10 years ago, that has changed.

Today, over 1,300 financial institutions use LoanStreet's open, transparent and efficient loan sharing platform for loan participations, helping them to generate greater returns and better mitigate risk – key priorities in a volatile market environment.

We recently hosted our Third Annual Virtual Forum and featured industry experts who reflected on 2022 and shared insights on the future of the lending industry. In this report, we're excited to present some of the key takeaways from the event and illustrate how LoanStreet can help support you and your memberships going forward.

**Ian Lampl**

Co-founder & CEO, LoanStreet, Inc.

# Reflecting on a Volatile Year

## THE ECONOMY

In the beginning of 2022, the Fed was holding the federal funds rate near zero. As concerns about inflation and an overheated economy came to the forefront, the Fed took action and increased the Fed Funds rate rapidly; as of this month, that rate is 4.00%, with expectations for additional increases to come. For credit unions, 2022 demonstrated a sharp increase of 15% in loan growth, whereas share growth slowed by 10%. Return on assets declined in the first half of 2022. Accumulated unrealized losses on available-for-sale investments from Q3 2022 are likely to hit -12%.

A significant portion of shareholder savings that accumulated during the pandemic has now run off, and competition over shares and deposits has dramatically increased. Although the dealer auto inventory-to-sales ratio has not improved significantly, new auto sales are beginning to rise again with improvements in production and alleviated supply constraints.

Only **30%** of credit unions used some type of interest rate benchmark to set their rates, half of which made adjustments just 1-2 times per month despite rate volatility.

**70%** were less liquid because originations were above plan or cash was tied up in other investments.

*LoanStreet 2022 Pre-Virtual Forum Client Survey*



## SECONDARY LOAN MARKETS

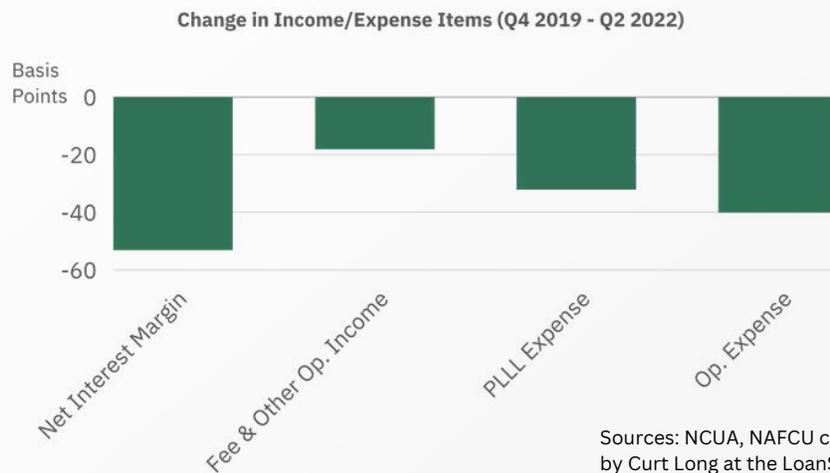
During this past year, there was a tremendous shift in secondary trading: a “seller’s market” has become a “buyer’s market.” In the beginning of the year, balance sheet managers, finding themselves unable to source enough loans to absorb all their liquidity, turned to investments in order to put their money to work, often the Treasury market, in some cases, locking up money for several years. Even as rates rose, origination volumes increased as members sought to lock in low rates (and supply of products became more available to purchase), a result which was due in part by some credit unions being slow to respond to the changing interest rate levels. This also allowed credit unions to grow market share from banks, though often at a cost. For many credit unions, selling these newly

originated loans became a challenge as they would have needed to be sold at a discount (relative to the new market clearing levels); so instead, they held onto them or were required to sell the loans at a discount. The combination of high originations and inability to sell, except at a loss, quickly led to lower levels of liquidity.

## RETURN ON ASSETS

While overall Return on Assets declined in 1H22, levels are still consistent with market conditions pre-pandemic. Despite this, “The outlook for earnings is a bit grimmer than what the [overall] ROA picture might suggest,” said Curt Long of the NCUA at the 2022 LoanStreet Virtual Forum. Mr. Long noted that although between 2019 and 2022 the net interest margin was starting to improve, it is still down over 50 bps since prior to the pandemic. He added that operating expenses from wage pressures and PLLL expenses could be a "double-whammy" in light of the potential for a recession and CECL coming online. Fortunately, on the capital side, NCUA allows credit unions to stretch out that impact over three years.

### ROA Decomposition



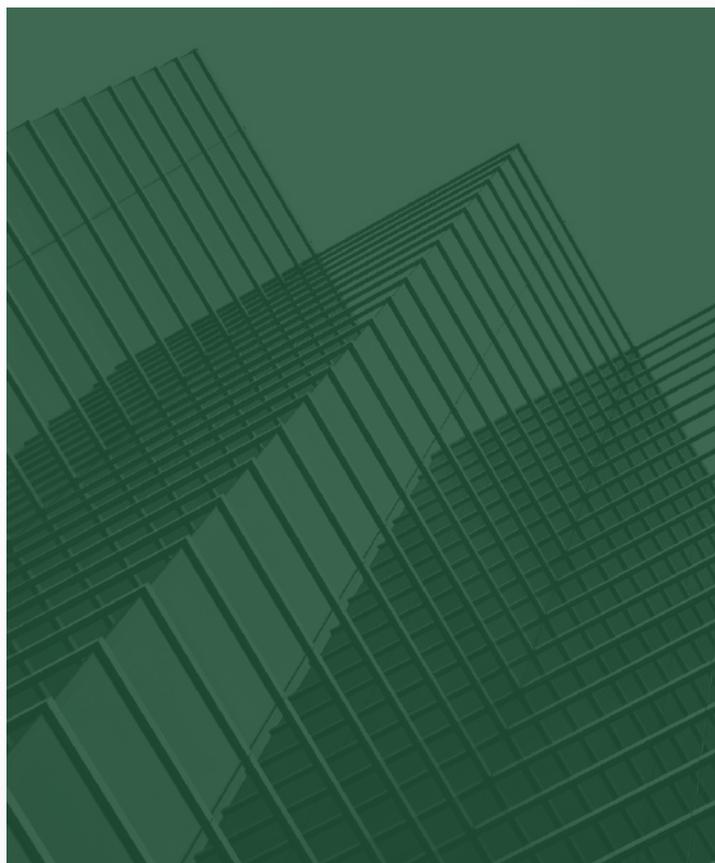
"I think we are going to see some earnings impact related to higher delinquencies, higher charge-offs, and higher reserve expenses as well."

**Curt Long**  
 Chief Economist & VP of Research, NAFCU  
 LoanStreet Virtual Forum 2022

# State of the Loan Participation Market

In 2012, total loan participation volume sat at about \$4.5 billion. At the start of 2022, it had grown to over \$27 billion, roughly a 500% increase in participation activity over the past decade. Despite the rapid growth, federally chartered credit unions, 28% of which use loan participations to help manage their portfolios, have embraced loan participations at a far slower pace than their state chartered counterparts.

As NCUA Board Member Hood noted during our Virtual Forum, the credit union system is robust, with 5 million new members added since the start of the pandemic. Total credit union assets have increased to approximately \$2.14 trillion dollars, and total loan volume is around \$1.39 trillion.



Want to watch replays of our Virtual Forum? Visit the registration page [here!](#)



“While federally insured state chartered credit unions make up only 20% of the industry, they have engaged with loan participations at higher rates than federally chartered credit unions.”

**Honorable Rodney E. Hood**

Board Member, NCUA

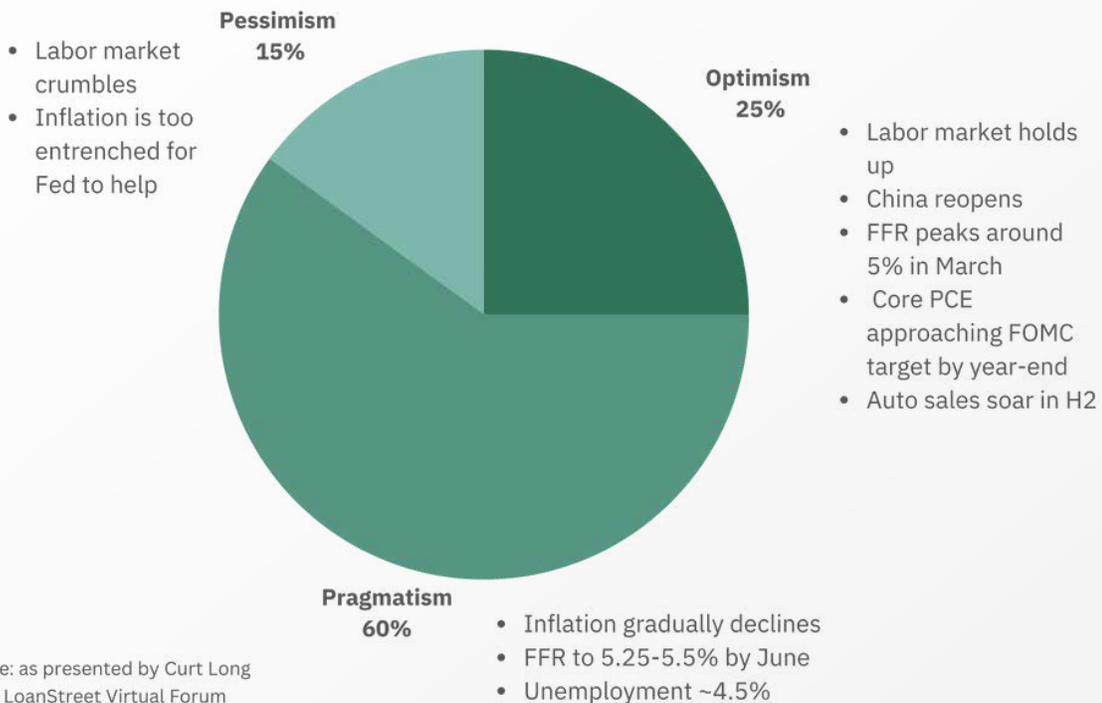
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# 2023 Outlook

## THE ECONOMY

Constrained liquidity will continue to be an issue so long as interest rates are continuing to rise. When interest rates and originations stabilize, liquidity should normalize too. Credit unions with liquidity will be able to capture favorable purchase opportunities and negotiate more favorable pricing - not just because of higher rates, but also because of increased spreads over the risk-free rate.

### Curt Long's 2023 Outlook Probabilities

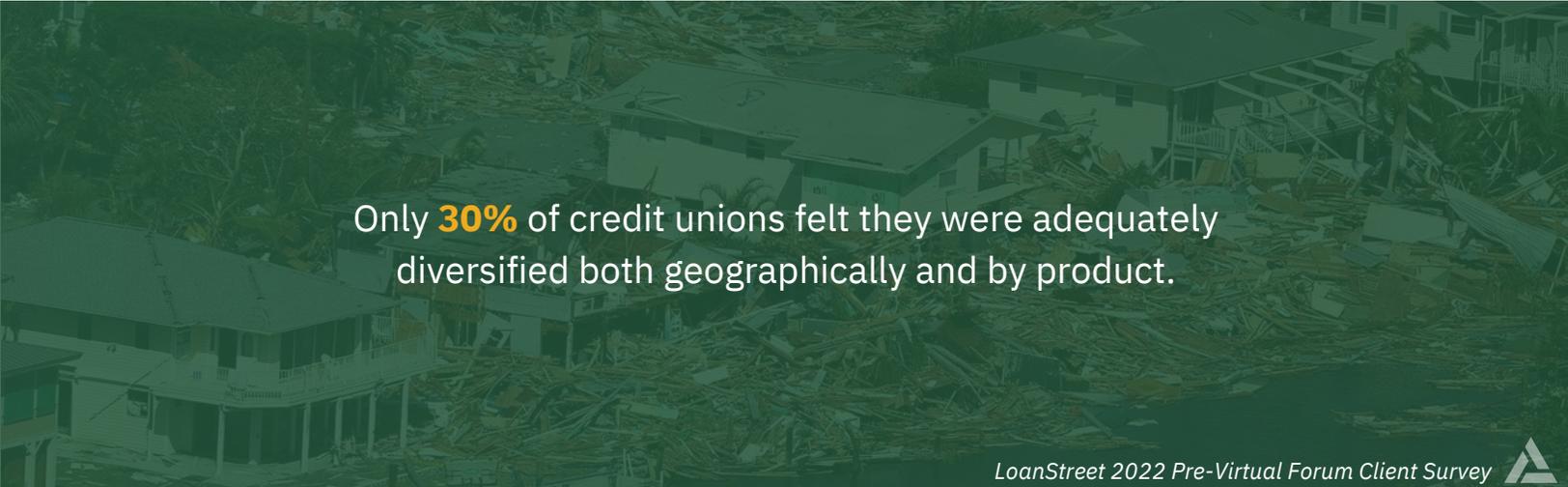


**Super Prime Bucks the Trend:** The forecast for super prime borrowers is strong. As highlighted by LoanStreet's VP of Analytics, Doug Callahan, during the Virtual Forum, economic headwinds of the past two years showed little-to-no effect on super prime loan performance, prepayments, charge-offs and delinquencies.

# Strategies for Credit Unions in 2023

## Ensure your portfolio is well diversified

Any location can experience a natural disaster or a local economic downturn, leading to adverse loan performance within that geography. Similarly, any type of high asset concentration can lead to unanticipated performance variations in the case of an idiosyncratic event (think housing in the Great Recession). The key to mitigating these risks moving forward? Diversification. However, instead of implementing a new portfolio strategy or attempting to expand its field of membership, both of which can be slow and cumbersome, a credit union might diversify more easily with loan participations.



Only **30%** of credit unions felt they were adequately diversified both geographically and by product.

LoanStreet 2022 Pre-Virtual Forum Client Survey



Read LoanStreet's 2022 white paper on portfolio diversification with loan participations [here](#).

**LOANSTREET**  
WHITE PAPER

**Not From Concentrate:  
Portfolio Diversification with  
Loan Participations**

## Increase the flexibility and agility of your balance sheet

Navigating a loan portfolio amid rapidly shifting market conditions can be challenging when liquidity is tight. However, loan participations can serve as a critical tool, allowing credit unions to pivot their lending strategies and adjust the mix of asset types, as well as geographic exposures, on their balance sheet. Buying or selling a slice of loans of various asset classes enables credit unions to balance their books within weeks, not months. In addition, quantifying a portfolio's agility is easier than ever with analytics that closely track loan participation portfolio performance.

**64%** of credit unions offer rates based on local competition vs. only **30%** of credit unions who used some type of interest rate benchmark. **55%** of these credit unions only adjusted their rates 1-2 times per month, even though we've seen rates move more than 100 basis points in a month and 20-plus basis points in a day.

LoanStreet 2022 Pre-Virtual Forum Client Survey 



“One key advantage of the Trading Desk at LoanStreet is we can react immediately when rates move and can reprice our offerings accordingly.”

**Matt Rudzinski**

Director of Sales & Trading, LoanStreet



“Credit unions should have board-approved policies and procedures in place to help them make adjustments when setting loan rates. LoanStreet's ability to easily and efficiently reprice offerings can help credit unions stay on top of rates and not be caught off market.”

**Eric Marcus**

Managing Director & Head of Trading, LoanStreet

## Revisit new or existing third-party partnerships

Supplementing an origination pipeline through third-party partnerships can be an effective way to help scale a lending program. Credit unions can leverage LoanStreet's platform and broad network, including non-bank lenders, to augment their origination strategies and help efficiently distribute loan pools to multiple buyers. As market conditions change, credit unions should be diligent in continually evaluating partnerships to ensure they are meeting objectives profitably.

**46%** of credit unions are reevaluating third-party partnerships as a result of changing market conditions.

LoanStreet 2022 Pre-Virtual Forum Client Survey



“Credit unions that plan to partner with third-party originators have an opportunity to negotiate favorable pricing terms at this time. This should position them well into the future.”

**Matt Rudzinski**

Director of Sales & Trading, LoanStreet Inc.

## Don't try and time the market.

Time in the market beats time out of the market. Despite the Fed raising rates more than expected, yields on longer-term treasuries declined as expectations adjusted. You might wonder: with Fed Funds/short-term rates rising and expected to go higher, aren't we better off putting our money in short-term investments until the Fed has finished raising rates and then purchase participations? The answer is, in general, no.

Unless a buyer is making an outright rate call and placing a bet that the yield curve is wrong, rate expectations are such that putting money to work now in short-term assets and later in long-term assets will likely result in the same return as just putting the money to work now in the longer-term assets as the yields on longer-term assets include future rate expectations.

Read more about timing in our July 2022 piece, [“The Shape of Rates to Come: Yield Curve Expectations and Opportunity Costs.”](#)



"While the Fed manages the short-term Fed Funds Overnight Rate, longer-term rates are all about future rate expectations. "

**Eric Marcus**

Managing Director & Head of Trading, LoanStreet



# Benefits of Loan Participations

Loan participations allow credit unions to reduce concentration risk by increasing their exposure to a variety of different asset types and geographies. Participations offer credit unions additional income through premiums received at the time of sale and income over the life of the participation generated from servicing on behalf of the purchasers. Use participations to mitigate and minimize losses, while providing a reliable source of liquidity and opportunities to diversify.

“Properly managed loan participation programs can be beneficial to both selling and purchasing credit unions. Loan participation sales allow credit unions to manage interest rate risk, liquidity and credit risk. Purchasing credit unions benefit from balance sheet diversification and the potential for increased revenue by improving loan to asset and loan to share ratios.”

**Honorable Rodney E. Hood**  
Board Member, NCUA  
LoanStreet Virtual Forum 2022

“LoanStreet’s platform allows credit unions to explore opportunities in smaller sizes before fully committing to third-party originators or different loan products.”

**Matt Rudzinski**  
Director of Sales & Trading, LoanStreet

# Why LoanStreet?

## Immediate Scale



LoanStreet's fully-integrated, online platform gives you access to an ever-expanding network of over 1,300 buyers and sellers. With pro-rata loan allocations, we make any size loan purchase or sale possible across all asset classes.

## Greater Efficiency



Our team has streamlined every aspect of the loan sharing process from standardizing deal documentation to automating administrative processes like monthly reporting, freeing up valuable time and resources for your credit union to optimize your balance sheet.

## Transparent Pricing



Our Marketplace allows both buyers and sellers to view pricing and yields on all available deals, allowing for easy comparison and full transparency among pools. In contrast to traditional brokers that work on a spread basis, on our independent loan sharing platform, the price you see is the price everyone pays.

## Advanced Analytics



Our analytics suite provides critical insight into your institution's loan participation portfolio, giving decision makers unique, actionable business intelligence, including the ability to analyze past investment performance versus your initial expectations, as well as anticipate future results.

## Ongoing Partnership



Our team is more than a technology provider – we are strategic business partners who are available to provide technical assistance and strategic advice at every step along the way.

## Cost-Effectiveness



Our platform is free to join, with no registration fees, subscription fees or minimum usage requirements. Access to our loan sharing network comes at zero cost to you.

## Comprehensive View



By tracking hundreds of detailed loan characteristics and other metrics, you have the clearest view of your loan portfolio. Our platform consolidates all loan transactions, providing you with a complete view of your loan portfolio so you can do more transactions, more frequently, with more partners and with greater confidence than ever before.

## Dedicated Expertise



Our team brings decades of unparalleled lending, capital markets, legal and regulatory expertise. We are focused on serving credit unions of all sizes, big and small, so you can serve your memberships better.

# Getting a Loan Participation Program Started with LoanStreet

Our mission is to provide the most efficient, transparent and robust tools for financial institutions to manage their balance sheets, connect with partners and effectively share risk. Getting your loan participation program started or your existing program streamlined has never been easier.

To get started, **buyers** can:

1. Register on LoanStreet.
2. Establish policies and strategic goals.
3. Identify opportunities on the Marketplace.
4. Perform seller and loan-level due diligence.
5. Submit an Indication of Interest to make a purchase.
6. Close on the participation.
7. Receive post-sale monthly reports on cash distributions (at no cost to buyers).
8. Monitor loan participation performance analytics.

To get started, **sellers** can:

1. Identify loans for sale.
2. Upload information to LoanStreet.
3. Determine pricing with the Trading Team.
4. Process due diligence and marketing information.
5. Launch and close your deals.
6. Receive a post-sale monthly report.
7. Monitor loan participation performance analytics.

**Ready to participate? Contact [sales@loan-street.com](mailto:sales@loan-street.com)  
or visit [www.loan-street.com](http://www.loan-street.com).**