



# Analyzing Loan Participations

## Reviewing Summary Deal Terms

Summer 2017

To effectively market and sell a significant volume of consumer loans financial institutions, including credit unions, often aggregate large numbers of individual loans into pools. To simplify the analysis of these pools by potential buyers, the pools are generally composed of loans with similar characteristics such as asset type and credit quality.

Whether an institution is constructing a pool of loans for potential sale, or reviewing a pool for potential purchase, it is important to understand and analyze the fundamental financial, structural and credit characteristics of the pool and the loans that comprise the pool. To assist purchasers in assessing participations in the loans in the pool, LoanStreet prepares a summary memorandum for each pool, highlighting important attributes of the pool.

### Deal Sheet – Cover Page

The cover page of the summary memorandum provides a basic overview of the pool, including loan type, pool size, offering price, servicing fees and the expected net yield. The page also highlights the underlying credit score of the loans in the pool and sets out the return earned on comparable investment alternatives. Below is an example of the front cover of the LoanStreet summary memorandum.

The first items displayed on the cover page are **Dollar Amount** and **Loan Type**, which frame the opportunity in terms of the loans in the pool and the expected duration, as well as the range of expected returns given the loan type.



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100% Credit Union Loans

Pool ID: PXX-123

\$4.43 MM Indirect Auto Loans

**YIELD: 3.125%**

**WAL (ABS of 1.0): 27.00 MONTHS**

**Price: 101.75%**

**Net WAC: 2.91%**

**Gross WAC: 3.41%**

**Servicing: 50 BPS**

**WA Credit Score: 702**

**2 year Treasury: 1.36%\***

**Comp. CD Rate: 1.64%\*\***

Original Balance	\$4,738,240.07
Current Balance	\$4,433,824.22
WA Original Term	66 MONTHS
WA Remaining Term	48 MONTHS
Loans	137

**Additional Information:**

- ✓ Example State Credit Union
- ✓ Servicing Retained
- ✓ 90% participation with seller retaining 10%
- ✓ Loans will be sold with, and the participation purchase price will include, accrued but unpaid interest
- ✓ Detailed information is available on LoanStreet under Pool ID PXX-123 upon request
- ✓ Yield is the estimated yield for the pool net of premiums and servicing based on the WAL derived from the prepayment model expressed above

The next items displayed are the “headline” investment return characteristics for the pool, **Expected Net Yield** followed by expected **Weighted Average Life (WAL)**, which facilitates review of the opportunity and the expected return against comparable investment alternatives. Highlighting the **Expected Net Yield** and **WAL** together enables the purchaser to compare the investment in the most effective light, i.e., the participation return versus alternative investments with a similar **WAL** to the pool.

The next section of the cover page allows potential purchasers to review the key components of investment return. This section begins with the **Price** paid, expressed as a percentage of “par” or principal value, so that the potential purchaser can assess the “up-front” premium, or discount, if any. Listed next is the **Net Weighted Average Coupon**, calculated from the difference between the succeeding two items, **Gross Weighted Average Coupon** and **Servicing Fees**, which are the servicing costs associated with the pool and reduce the **Gross Weighted Average Coupon**. The **Net Weighted Average Coupon** reflects the average coupon, or interest rate, that investors will receive on the loans in the pool. Since **Net Weighted Average Coupon** is used in calculating the **Expected Net Yield**, the servicing costs are also factored into **Expected Net Yield**.

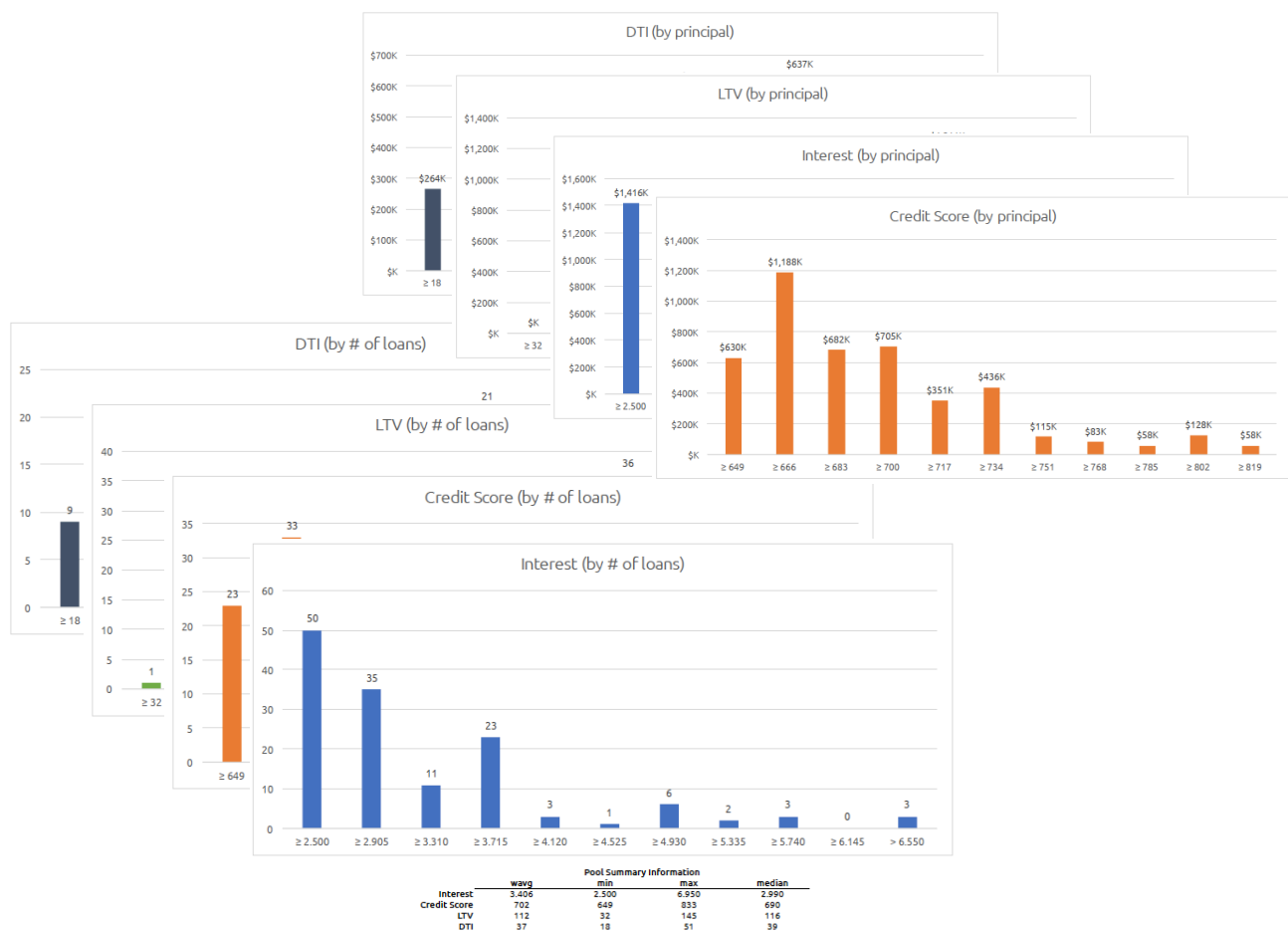
The pools being analyzed consist of loans that can be prepaid, typically without penalty, prior to the contractual final maturity of the loan. Thus, to calculate an Expected Net Yield and a Weighted Average Life, assumptions are required regarding the number of loans that will be pre-paid and the timing of those prepayments. For the purposes of this memo we use an ABS prepayment rate, which expresses prepayments as the percentage of original principal balance of the loans in the pool that will prepay each month. CPR is another common prepayment model often used for real estate loans. If a pool is purchased with a Price, or a premium, greater than par, prepayments that are greater than the assumed prepayment model will result in a Net Yield less than the Expected Net Yield. Conversely, if prepayments are slower than expected, the result will be a Net Yield greater than the Expected Net Yield.

Since consumer loans are credit assets, their returns, of course, need to be assessed in the context of the credit risk associated with the loans and the returns that can be earned by investing in other, comparable investment alternatives. With that in mind, the next two sections of the cover page set out **Weighted Average Credit Score**, to help potential purchasers measure the risk of the pool, and a market-based estimate of the current returns that can be earned on certain comparable investment alternatives. The top line Expected Net Yield on the summary memorandum does not take into account credit losses that can occur over the life of the pool.

The remaining information on the cover page is included to provide additional supporting information “at the pool level” including **Original Balance** and **Current Balance**, **Weighted Average Term**, both original and current remaining term, and the raw number of loans in the pool.

### **Loan Pool – Detail and Analysis**

The second, third and fourth pages of LoanStreet’s summary memorandum, provide data for the pool at the loan level to help the potential purchaser better understand the loans that comprise the pool. The data includes the underlying detail for the interest rates (coupon), term, credit score and Loan-to-Value (“LTV”) and Debt-to-Income (“DTI”) ratios when available. The data is then sorted to show minimum and maximum levels, average and median for the attributes of the individual loans and the distribution of loans across ranges of values for each attribute. The data is then represented in tabular and graphical format to provide a visual representation of the pools statistical attributes.



Interest Rates	# of Loans	Principal (in \$000s)
Greater than 2.500 & less than 2.905	50	\$1,416
Greater than 2.905 & less than 3.310	35	\$1,222
Greater than 3.31 & less than 3.715	11	\$391
Greater than 3.715 & less than 4.12	23	\$795
Greater than 4.12 & less than 4.525	3	\$157
Greater than 4.525 & less than 4.93	1	\$33
Greater than 4.93 & less than 5.335	6	\$229
Greater than 5.335 & less than 5.74	2	\$45
Greater than 5.74 & less than 6.145	3	\$69
Greater than 6.145 & less than 6.55	0	\$0
Greater than 6.55	3	\$78
Total	137	\$4,434

Credit Scores	# of Loans	Principal (in \$000s)
Greater than 649 & less than 666	23	\$630
Greater than 666 & less than 683	33	\$1,188
Greater than 683 & less than 700	25	\$682
Greater than 700 & less than 717	21	\$705
Greater than 717 & less than 734	14	\$444
Greater than 734 & less than 751	9	\$343
Greater than 751 & less than 768	3	\$115
Greater than 768 & less than 785	3	\$122
Greater than 785 & less than 802	1	\$19
Greater than 802 & less than 819	4	\$161
Greater than 819	1	\$25
Total	137	\$4,434

Loan to Value (LTV)	# of Loans	Principal (in \$000s)
Greater than 31.738 & less than 42.045	1	\$0
Greater than 42.045 & less than 52.352	1	\$29
Greater than 52.352 & less than 62.659	0	\$0
Greater than 62.659 & less than 72.966	2	\$52
Greater than 72.966 & less than 83.273	0	\$0
Greater than 83.273 & less than 93.58	15	\$460
Greater than 93.58 & less than 103.887	20	\$609
Greater than 103.887 & less than 114.194	28	\$923
Greater than 114.194 & less than 124.501	36	\$1,211
Greater than 124.501 & less than 134.808	27	\$854
Greater than 134.808	7	\$204
Total	137	\$4,422

Debt to Income (DTI)	# of Loans	Principal (in \$000s)
Greater than 18.231 & less than 21.21	9	\$264
Greater than 21.21 & less than 24.189	6	\$239
Greater than 24.189 & less than 27.168	6	\$310
Greater than 27.168 & less than 30.147	11	\$329
Greater than 30.147 & less than 33.126	11	\$309
Greater than 33.126 & less than 36.105	18	\$597
Greater than 36.105 & less than 39.084	12	\$417
Greater than 39.084 & less than 42.063	21	\$637
Greater than 42.063 & less than 45.042	19	\$535
Greater than 45.042 & less than 48.021	16	\$569
Greater than 48.021	8	\$228
Total	137	\$4,434

## Additional Information

For additional information about loan participations or learn more about LoanStreet, please visit [www.loan-street.com](http://www.loan-street.com) or contact us at [info@loan-street.com](mailto:info@loan-street.com).

## Glossary of Terms (Alphabetical)

**ABS (Absolute Prepayment Speed):** a prepayment model that calculates prepayments on a loan as a monthly percentage of the original loan balance. This model is commonly used for auto, truck and recreational vehicle loans.

**Coupon or Rate:** the interest rate on the loan paid by the borrower, expressed as a percentage rate per annum.

**CPR (Constant Prepayment Rate):** a prepayment model that calculates prepayments as a percentage of the current loan balance. This model is commonly used for real estate loans and student loans.

**DTI Ratio:** 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.

**Gross WAC:** the WAC before deducting the Servicing Spread charged by the originating lender.

**LTV Ratio:** generally, the ratio of the original loan balance over the original collateral value. LTV can also be expressed as current balance over the most recent collateral value.

**Net WAC:** the WAC after deducting the Servicing Spread charged by the originating lender.

**Prepayment Model:** 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 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.

**Servicing Retained:** means that the originating lender continues to service the loan, including collection of payments.

**Servicing Spread or Servicing Fee:** 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%.

**Term:** the period of time from the loan's origination date to maturity date.

**Weighted Average (WA):** is the average of some set of values calculated by giving weight to certain values based on some attribute of the data set. For example, loan pools typically weight averages by principal outstanding. In the context of this memorandum, consumer loan weighted averages are determined by “weighting” loans by giving weight to an individual loan by measuring the current principal outstanding of the loan as a percentage of the total principal outstanding in the pool.

**WAC:** the Weighted Average Coupon for all loans in the pool, determined by reference to the weight of the current principal balance of each loan in the pool as a percentage of the total principal.

**Weighted Average Life or WAL:** the estimate of the time it will take for the average dollar of principal in the pool to be paid in full. This estimate takes into account the contractual term of the loans in the pool, adjusted for the assumed rate of prepayments. (see “Prepayment Model” above)

## Glossary of Terms (Categorical)

### Return or Yield:

**Coupon or Rate:** the interest rate on the loan paid by the borrower, expressed as a percentage rate per annum.

**Gross WAC:** the WAC before deducting the Servicing Spread charged by the originating lender.

**Net WAC:** the WAC after deducting the Servicing Spread charged by the originating lender.

**Price:** 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.

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**Term:** the period of time from the loan's origination date to maturity date.

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### Credit Analysis:

**DTI Ratio:** 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.

**LTV Ratio:** generally, the ratio of the original loan balance over the original collateral value. LTV can also be expressed as current balance over the most recent collateral value.

Payments:

**ABS (Absolute Prepayment Speed):** a prepayment model that calculates prepayments on a loan as a monthly percentage of the original loan balance. This model is commonly used for auto, truck and recreational vehicle loans.

**CPR (Constant Prepayment Rate):** a prepayment model that calculates prepayments as a percentage of the current loan balance. This model is commonly used for real estate loans and student loans.

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