



**LOANSTREET®**

*Recent Developments & Practical Tips  
for Loan Participation*

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# NCUA Participation Requirements

## Primary Regulation

- Section 701.22 (“Loan Participations”) governs loan participations by credit unions for both the originating lender and purchaser.  
<http://goo.gl/66YHmy>.

## Examination Manual

- Examiner’s Guide (“Participation Loans”) on pages 10A-34, 35.  
<http://goo.gl/LWZKlu>.
- NCUA Letter to Credit Unions 08-CU-26
  - Supervisory Letter & Exam Questionnaire. <http://goo.gl/fyPLAR>
- NCUA Opinion 18-0133
  - <https://www.ncua.gov/regulation-supervision/Pages/rules/legal-opinions/2018/loan-participation.pdf>

# Before Purchase – Creating the Audit Trail

- Create & adopt a loan participation policy
- Written participation agreement
- Maximum sale and retention amounts

# Creating the Audit Trail



**Loan  
Participation  
Policy**

- ✓ Written policy for participations
- ✓ Policy must be approved by the Board
- ✓ Covers underwriting standards, permissible loans, limits on aggregate purchases

# Creating the Audit Trail



**Written  
Participation  
Agreement**

- ✓ Identification of loans sold
- ✓ Originator's retained interest
- ✓ Custodian of loan documents
- ✓ Access to financial and performance info
- ✓ Duties and responsibilities of servicer
- ✓ Replacement of servicer

# The Purchase – Diligence and Examinations

Each loan purchased must be within your policy (or documented exception)

Prepare for examiner review

Document decision process

100% review of electronic information

Review paper loan file; sample vs 100%

*“Obligation . . . to review 100% of the underlying loan documents . . . will depend on the characteristics of the loan pool to be purchased.” --NCUA*

# Accounting as an Originator

- Need to flag loans sold in your general ledger
- Prepare monthly reports for each loan
  - ☑ P&I payments, fees, reversals, etc.
  - ☑ Delinquencies, charge-offs, repossessions and other credit statistics
  - ☑ Flag other activity on the loans such as CPI, GAP Insurance, skip-a-pay
  - ☑ Create accounts receivable table for affected loans



# Accounting as a Participant

- Can be a single item entry in the general ledger
  - However, detailed remittance information **must** be available at all times at the loan level
- Create accounts receivable table for affected loans
- Decide how you plan to handle premium amortization

# Reporting – Distribution summary reports

Distribution Summary Reports show distributions during the period in aggregate, by seller & by pool

Reports include suggested journal entries for all distributions

| BORROWER PAYMENT REPORT   |  |  | 2017-12-01 to 2017-12-31 |                     |                     |                     |                     |                     |
|---|--|--|--------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Reporting Period  |  |  | 2017-12-01 to 2017-12-31 |                     |                     |                     |                     |                     |
| Seller Institutions Report Complete   |  |  | CUABC                    |                     |                     |                     |                     |                     |
| Seller Institutions Report Pending  |  |  | CUDEF                    |                     |                     |                     |                     |                     |
| Statistics  |  |  | Full Portfolio           |                     | By Seller           |                     | By Pool             |                     |
|   |  |  | CUABC All                | CUDEF All           | P12-34A CUABC       | P56-788 CUDEF       |                     |                     |
| Total number of loans (with payments)                                       |  |  | 315                      | 207                 | 108                 | 207                 |                     |                     |
| Total number of payments  |  |  | 433                      | 320                 | 160                 | 320                 |                     |                     |
| <b>Full Borrower Payment</b>  |  |  |                          |                     |                     |                     |                     |                     |
| <b>Includes Balances of Re-Purchased Loans</b>                              |  |  |                          |                     |                     |                     |                     |                     |
| Total Principal   |  |  | \$426,013.82             | \$96,222.75         | \$329,791.07        | \$96,222.75         | \$329,791.07        | \$96,222.75         |
| Principal (net cash flows)  |  |  | \$426,013.82             | \$96,222.75         | \$329,791.07        | \$96,222.75         | \$329,791.07        | \$96,222.75         |
| Principal (net non-cash flows)  |  |  | \$0.00                   | \$0.00              | \$0.00              | \$0.00              | \$0.00              | \$0.00              |
| Gross Interest  |  |  | \$20,626.29              | \$13,411.59         | \$7,214.70          | \$13,411.59         | \$7,214.70          | \$13,411.59         |
| Fees  |  |  | \$258.01                 | \$187.00            | \$71.01             | \$187.00            | \$71.01             | \$187.00            |
| Other (for Whole Syndicate)   |  |  | \$0.00                   | \$0.00              | \$0.00              | \$0.00              | \$0.00              | \$0.00              |
| Other (for Originator only)   |  |  | \$0.00                   | \$0.00              | \$0.00              | \$0.00              | \$0.00              | \$0.00              |
| Recoveries  |  |  | \$0.00                   | \$0.00              | \$0.00              | \$0.00              | \$0.00              | \$0.00              |
| <b>Total</b>  |  |  | <b>\$446,898.12</b>      | <b>\$109,821.34</b> | <b>\$337,076.78</b> | <b>\$109,821.34</b> | <b>\$337,076.78</b> | <b>\$109,821.34</b> |
| <b>Syndicate Member Pro-Rata Calculations</b>                               |  |  |                          |                     |                     |                     |                     |                     |
| Total Principal   |  |  | \$30,448.11              | \$18,781.12         | \$11,666.99         | \$18,781.12         | \$11,666.99         | \$18,781.12         |
| Principal (net cash flows)  |  |  | \$30,448.11              | \$18,781.12         | \$11,666.99         | \$18,781.12         | \$11,666.99         | \$18,781.12         |
| Principal (net non-cash flows)  |  |  | \$0.00                   | \$0.00              | \$0.00              | \$0.00              | \$0.00              | \$0.00              |
| Gross Interest  |  |  | \$3,862.29               | \$2,617.72          | \$1,244.57          | \$2,617.72          | \$1,244.57          | \$2,617.72          |
| Servicing Spread  |  |  | \$121.00                 | \$83.57             | \$37.43             | \$83.57             | \$37.43             | \$83.57             |
| Net Interest [excludes servicing]   |  |  | \$3,741.29               | \$2,534.15          | \$1,207.14          | \$2,534.15          | \$1,207.14          | \$2,534.15          |
| Fees  |  |  | \$48.75                  | \$36.50             | \$12.25             | \$36.50             | \$12.25             | \$36.50             |
| Other   |  |  | \$0.00                   | \$0.00              | \$0.00              | \$0.00              | \$0.00              | \$0.00              |
| Recoveries  |  |  | \$0.00                   | \$0.00              | \$0.00              | \$0.00              | \$0.00              | \$0.00              |
| <b>Subtotal to be Distributed</b>   |  |  | <b>\$34,238.15</b>       | <b>\$21,351.77</b>  | <b>\$12,886.38</b>  | <b>\$21,351.77</b>  | <b>\$12,886.38</b>  | <b>\$21,351.77</b>  |
| <b>Accounts Payable</b>   |  |  |                          |                     |                     |                     |                     |                     |
| Change in Accounts Payable  |  |  | -\$52.76                 | -\$52.76            | \$0.00              | -\$52.76            | \$0.00              | -\$52.76            |
| (Increases in A/P results from net negative cash flows on a per loan basis) |  |  |                          |                     |                     |                     |                     |                     |
| <b>Reconciliation</b>   |  |  |                          |                     |                     |                     |                     |                     |
| <b>Includes Proceeds from Repurchased Loans</b>                             |  |  |                          |                     |                     |                     |                     |                     |
| Principal   |  |  | \$45,250.88              | \$0.00              | \$45,250.88         | \$0.00              | \$45,250.88         | \$0.00              |
| Premium   |  |  | \$1,221.79               | \$0.00              | \$1,221.79          | \$0.00              | \$1,221.79          | \$0.00              |
| Accrued but Unpaid Interest   |  |  | \$647.66                 | \$0.00              | \$647.66            | \$0.00              | \$647.66            | \$0.00              |
| <b>Subtotal</b>   |  |  | <b>\$47,120.33</b>       | <b>\$0.00</b>       | <b>\$47,120.33</b>  | <b>\$0.00</b>       | <b>\$47,120.33</b>  | <b>\$0.00</b>       |

# Reporting – Loan level distribution reports

Loan Level Distribution Reports provide a detailed analysis of cash flows for all loans managed on LoanStreet

| Identification and Ownership                        |                                |                                |                                |                       |                                   |  |                             |  |
|---|--------------------------------|--------------------------------|--------------------------------|-----------------------|-----------------------------------|--|-----------------------------|--|
| Loanstreet ID                                       | Originator                     | Ticker                         | Pool ID                        | Ownership %           |                                   |  |                             |  |
| Review cash flow by seller, by pool or in aggregate |                                |                                |                                |                       |                                   |  |                             |  |
| Full Borrower Payment Before Pro-Rata Calculations  |                                |                                |                                |                       |                                   |  |                             |  |
| Borrower Payment Date                               | Principal                      | Principal (net cash flows)     | Principal (net non-cash flows) | Current Interest Rate | Gross Interest                    | Other (for Originator only)            | Other (for Whole Syndicate) |  |
| Syndicate Member Pro-rata calculations              |                                |                                |                                |                       |                                   |  |                             |  |
| Total Principal                                     | Principal (net cash flows) (i) | Principal (net non-cash flows) | Gross Interest                 | Servicing Spread      | Servicing Spread (for Originator) | Net Interest [excludes servicing] (ii) | Other (iii)                 | Total Amount for Syndicate Member (i+ii+iii) |
| Miscellaneous                                       |                                |                                |                                |                       |                                   |  |                             |  |
| Collateral Condition (if auto)                      | Messages                       | Borrower Payment Memo          | Loan URL                       |                       |                                   |  |                             |  |

Loan level detail includes the full payment waterfall for all principal, interest and fees received during the period for each loan

# NCUA Opinion on Participations

- In March NCUA's General Counsel issued a new opinion on participations
- Important considerations
  - Loan participation regulation must be met throughout life of the transaction
  - Each loan must be identified & treated independently
- Common pitfalls for CUs
  - Calculation and collection of servicing fees
  - "Netting" advances for CPI or other outlays

# The Net Interest Ratio or “Golden Ratio”

- Common method of calculating servicing fees

 Beginning Balance \* (Servicing Spread / Periods Per Year)

- These methods are prone to errors when there are no payments in a month or multiple payments in a month
- The “net interest” ratio is calculated on actual interest received

 (Servicing Spread / Interest Rate) \* Interest Received

- Ensures accurate calculation of servicing fees

# Common Errors – Example 1

## Loan Details

|                         |       |                  |     |
|-------------------------|-------|------------------|-----|
| Interest Rate           | 5.00% | Periods per year | 12  |
| Servicing Spread        | 0.50% | Total periods    | 48  |
| Contractual Passthrough | 4.50% | Ownership        | 90% |

## 100% vs 90% Servicing Fee

|   | Start       | Month 1     |            |
|---|-------------|-------------|------------|
| Full (100%) Principal Outstanding       | \$11,111.11 | \$10,901.53 |            |
| Buyer's (90%) Principal Outstanding     | \$10,000.00 | \$9,811.37  |            |
| Buyer's Principal Received              |             | \$188.63    |            |
| Buyer's Interest Received               |             | \$41.67     |            |
|   |             |             | Difference |
| Seller's Servicing Fee                  |             | \$4.63      |            |
| Passthrough rate to buyer               |             | 4.44%       | - 0.056%   |
| Net Interest Ratio Servicing            |             | \$4.17      |            |
| Net Interest Ratio Passthrough to buyer |             | 4.50%       | 0.000%     |

- Calculating servicing spread on 100% of balance rather than 90% pro-rata ownership results in 5.6 bps more servicing spread earned by the seller

# Common Errors – Example 2

## Loan Details

|                         |       |                  |     |
|-------------------------|-------|------------------|-----|
| Interest Rate           | 5.00% | Periods per year | 12  |
| Servicing Spread        | 0.50% | Total periods    | 48  |
| Contractual Passthrough | 4.50% | Ownership        | 90% |

## Unscheduled 2nd Payment

|   | Start       | Month 1 Regular<br>Payment | Month 1 Unscheduled<br>Payment | Total / Weighted<br>Average (single<br>month) | Difference |
|---|-------------|----------------------------|--------------------------------|---|------------|
| Buyer's Principal Outstanding           | \$10,000.00 | \$9,811.37                 | \$9,621.96                     |   |            |
| Buyer's Principal Received              |             | \$188.63                   | \$189.41                       |   |            |
| Buyer's Interest Received               |             | \$41.67                    | \$37.63                        |   |            |
| Seller's Servicing Fee                  |             | \$4.17                     | \$-                            | \$4.17  |            |
| Passthrough rate to buyer               |             | 4.50%                      | 5.00%                          | 4.7476%                                       | 0.248%     |
| Net Interest Ratio Servicing            |             | \$4.17                     | \$3.76                         | \$7.93  |            |
| Net Interest Ratio Passthrough to buyer |             | 4.50%                      | 4.50%                          | 4.5000%                                       | 0.000%     |

- Calculating servicing spread on balance results in the seller earning 24.8 bps less servicing spread

# Common Errors – Example 3

## Loan Details

|                       | Loan 1   | Loan 2   |                  | Loan 1 | Loan 2 |
|-----------------------|----------|----------|------------------|--------|--------|
| Beginning Balance     | \$20,000 | \$40,000 | Interest Rate    | 6.00%  | 4.00%  |
| Participant's Balance | \$18,000 | \$36,000 | Servicing Spread | 0.25%  | 0.25%  |
| Participant Ownership | 90.0%    | 90.0%    | Passthrough Rate | 5.75%  | 3.75%  |

## Improper Netting of CPI Advances

|                                    | Loan 1     | Loan 2   | Total      |
|------------------------------------|------------|----------|------------|
| Principal (Participant Share)      | \$332.73   | \$692.85 | \$1,025.58 |
| Gross Interest (Participant Share) | \$90.00    | \$120.00 | \$210.00   |
| Servicing Fee Deducted             | \$3.75     | \$7.50   | \$11.25    |
| Net Interest (Participant Share)   | \$86.25    | \$112.50 | \$198.75   |
| CPI Applied (Participant Share)    | (\$900.00) | \$0.00   | (\$900.00) |



# Common Errors – Example 3 (continued)

## Loan Details

|                       |          |          |                  |        |        |
|-----------------------|----------|----------|------------------|--------|--------|
|                       | Loan 1   | Loan 2   |                  | Loan 1 | Loan 2 |
| Beginning Balance     | \$20,000 | \$40,000 | Interest Rate    | 6.00%  | 4.00%  |
| Participant's Balance | \$18,000 | \$36,000 | Servicing Spread | 0.25%  | 0.25%  |
| Participant Ownership | 90.0%    | 90.0%    | Passthrough Rate | 5.75%  | 3.75%  |

## Improper Netting of CPI Advances

|                                       | Loan 1     | Loan 2   | Total      |
|---------------------------------------|------------|----------|------------|
| A/R Increase (P & I paid)             | \$418.98   | \$805.35 | \$1,224.33 |
| A/P Increase (from CPI purchased)     | \$900.00   | \$0.00   | \$900.00   |
| End of Month Balances & Distributions |            |          |            |
| Cash Received                         | (\$481.02) | \$805.35 | \$324.33   |
| A/P Balance                           | \$0.00     | \$0.00   | \$0.00     |
| Proper Results (A/P Table)            |            |          |            |
| Cash Received                         | \$0.00     | \$805.35 | \$805.35   |
| A/P Balance                           | \$481.02   | \$0.00   | \$481.02   |

# Key Take-aways

- ✓ Loan level vs payment level detail (ask for and get payment level!)
- ✓ No servicing fees applied to loans without payment
- ✓ Calculation of servicing fees using net interest ratio
- ✓ Look for accounts payable / receivable information on advances

# For more information



[info@loan-street.com](mailto:info@loan-street.com) | [www.loan-street.com](http://www.loan-street.com)



# Sample Monthly Reports

| Sell Side Report                                |  |                                     |                                   |              |              |              |
|---|--|-------------------------------------|-----------------------------------|--------------|--------------|--------------|
| Institution: EXAMPLE CREDIT UNION               |  |                                     |                                   |              |              |              |
| Reporting Period: 2017-12-01 2017-12-31         |  |                                     |                                   |              |              |              |
| Legend  |  |                                     |                                   |              |              |              |
| Portfolio Level                                 | Originator Amounts                               | Full Portfolio                      | By Syndicate Member (Participant) |              | By Pool      |              |
| Payment or Period Level                         | Syndicate Amounts                                |                                     | CUABC                             | CUDEF        | P12-34A      | P56-78B      |
|   | Total Amounts                                    |                                     |                                   |              |              |              |
| Statistics                                      |  |                                     |                                   |              |              |              |
| Total Number of Loans                           |  | 2599                                | 131                               | 378          | 476          | 235          |
| Total Number of Loans Outstanding               |  | 2339                                | 115                               | 308          | 415          | 222          |
| Total Number of Loans with payments this period |  | 1995                                | 93                                | 253          | 346          | 203          |
| Total Number of payments this period            |  | 2240                                | 104                               | 282          | 386          | 270          |
| Ownership percentage (weighted)                 |  | 90.00%                              | 90.00%                            | 90.00%       | 90.00%       | 90.00%       |
| Principal                                       |  | Suggested Affected Journal Accounts |                                   |              |              |              |
| Start of Period Balance                         | Principal Held by Originator                     | 5,846,999.39                        | 304,494.29                        | 753,977.95   | 928,037.20   | 538,270.10   |
|   | Principal Held by Syndicate Member(s)            | 52,622,993.92                       | 2,740,448.52                      | 6,785,801.11 | 8,352,335.30 | 4,844,438.00 |
|   | Total Principal Outstanding                      | 58,469,993.31                       | 3,044,942.81                      | 7,539,779.06 | 9,280,372.50 | 5,382,708.10 |
| Principal Payments (cash flows)                 | Principal Payment Amount Retained                | 143,287.03                          | 8,149.46                          | 20,952.97    | 20,638.11    | 13,334.00    |
|   | Principal Payment Amount Available for Syndicate | 1,289,582.68                        | 73,345.30                         | 188,577.30   | 185,742.35   | 120,006.50   |
|   | Total Principal Payment Amount                   | 1,432,869.71                        | 81,494.76                         | 209,530.27   | 206,380.46   | 133,340.50   |
| Principal Payments (non-cash flows)             | Principal Payment Amount Retained                | -426.30                             | -24.50                            | -44.10       | -107.80      | -4.00        |
|   | Principal Payment Amount Available for Syndicate | -3,836.70                           | -220.50                           | -396.90      | -970.20      | -441.00      |
|   | Total Principal Payment Amount                   | -4,263.00                           | -245.00                           | -441.00      | -1,078.00    | -445.00      |
| Reconciliation Payments                         | Principal Reconciled to Syndicate                | 0.00                                | 0.00                              | 0.00         | 0.00         | 0.00         |
| Principal Charged Off This Period               | Amount Held by Originator                        | 0.00                                | 0.00                              | 0.00         | 0.00         | 0.00         |
|   | Amount Held by Syndicate Member(s)               | 0.00                                | 0.00                              | 0.00         | 0.00         | 0.00         |
|   | Total Amount                                     | 0.00                                | 0.00                              | 0.00         | 0.00         | 0.00         |
| End of Period Balance                           | Principal Held by Originator                     | 5,704,138.53                        | 296,369.26                        | 733,068.90   | 907,506.88   | 524,985.90   |
|   | Principal Held by Syndicate Member(s)            | 51,337,248.07                       | 2,667,323.79                      | 6,597,620.89 | 8,167,563.16 | 4,724,872.10 |
|   | Total Principal Outstanding                      | 57,041,386.60                       | 2,963,693.05                      | 7,330,689.79 | 9,075,070.04 | 5,249,858.00 |
| Interest, Fees, Recoveries, and Other Payments  |  |                                     |                                   |              |              |              |
| Interest Payments                               | Gross Interest Retained by Originator            | 16,819.50                           | 697.01                            | 2,008.67     | 2,336.05     | 1,972.37     |
|   | Gross Interest Available for Syndicate           | 151,377.94                          | 6,273.30                          | 18,078.03    | 21,025.16    | 17,750.00    |
|   | Net Interest Available for Syndicate             | 140,959.08                          | 5,996.66                          | 16,015.01    | 19,593.66    | 16,780.00    |
|   | Servicing Spread for Originator                  | 10,418.86                           | 276.64                            | 2,063.02     | 1,431.50     | 970.00       |
|   | Total Gross Servicing Interest                   | 168,197.44                          | 6,970.31                          | 20,086.70    | 23,361.21    | 19,720.00    |
| Fee Payments                                    | Fees Retained by Originator                      | 53.99                               | 2.86                              | 0.00         | 10.50        | 3.00         |
|   | Fees Available for Syndicate                     | 485.89                              | 25.76                             | 0.00         | 94.40        | 33.00        |
|   | Total Fees                                       | 539.88                              | 28.62                             | 0.00         | 104.90       | 36.00        |
| Recovery Payments                               | Recoveries Retained by Originator                | 0.00                                | 0.00                              | 0.00         | 0.00         | 0.00         |
|   | Recoveries Available for Syndicate               | 0.00                                | 0.00                              | 0.00         | 0.00         | 0.00         |
|   | Total Recoveries                                 | 0.00                                | 0.00                              | 0.00         | 0.00         | 0.00         |