

Loan Purchases & Participations

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DATA AS OF DEC. 31, 2020

OVERALL

Lockdowns in 2020 hindered business lending even as government relief underpinned share growth, which, together, squashed the loan-to-share ratio. The precipitous drop in the LTS ratio, combined with a record-low rate environment, put substantial pressure on credit union earnings.

In response, credit unions turned to **loan purchases and participations**, which **reached record levels at U.S. credit unions**. Some credit unions sold loans to generate upfront, one-time revenue or reduce risk. Other credit unions purchased loans to boost LTS ratios or increase loan portfolio risk in search of higher yields.

Definitions

1 Loan Purchase Or Sale In Full

A loan originated by one institution and sold to another, where the purchasing institution has full title to the loan. Such transactions can occur between two financial institutions — like a credit union and a bank — or between a financial institution and a source outside the traditional financial industry. These transactions are a separate category from participation loans.

2 Participation Loan

A loan where one or more organizations share interest in the loan pursuant to a written agreement with the originating lender. The written agreement requires the originating lender to share responsibility through the life of the loan.

3 Participation Loans Purchased

Includes all loans with shared interest purchased by the credit union on a cumulative basis. Purchased participation loans can fall into any major loan category, including consumer and commercial.

4 Participation Loans Sold

Includes loans with shared interest sold to other financial institutions. The 5300 Call Report includes data on participation loans sold or serviced by a credit union as well as the portion of the participation loan still held by the credit union.

Purchases And Participations

2020 Purchases

Loans Purchased In Full

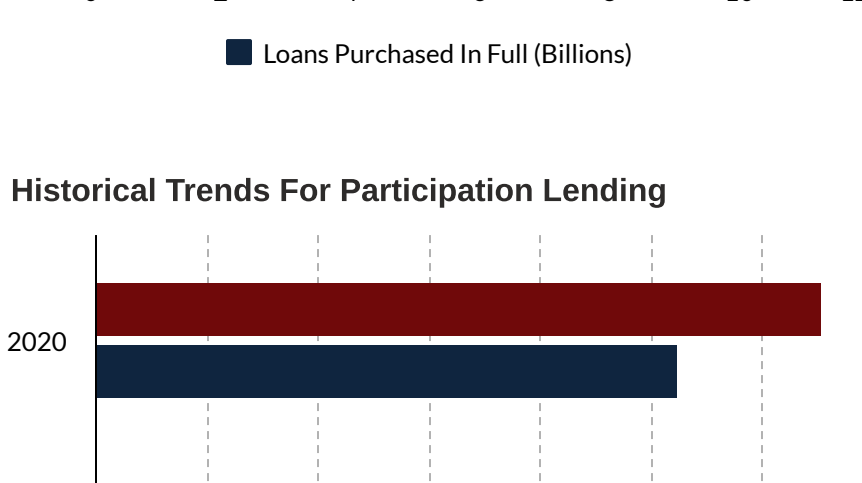
\$11,361,051,299

2020 Growth 118.6% ▲ 2019 Growth -8.3% ▼

Excluding real estate, loans sold in full declined 57.1% from 2019 to \$390.8 million in 2020.

Credit unions sold more low-yielding mortgages to the secondary market at record rates in 2020. However, given suppressed consumer lending during the pandemic, credit unions opted to retain some participation interest rather than sell consumer loans in full.

Historical Trends For Loans Purchased In Full



2020 Participations

Participation Loans Purchased

\$16,336,709,884

2020 Growth 40.1% ▲ 2019 Growth 4.4% ▲

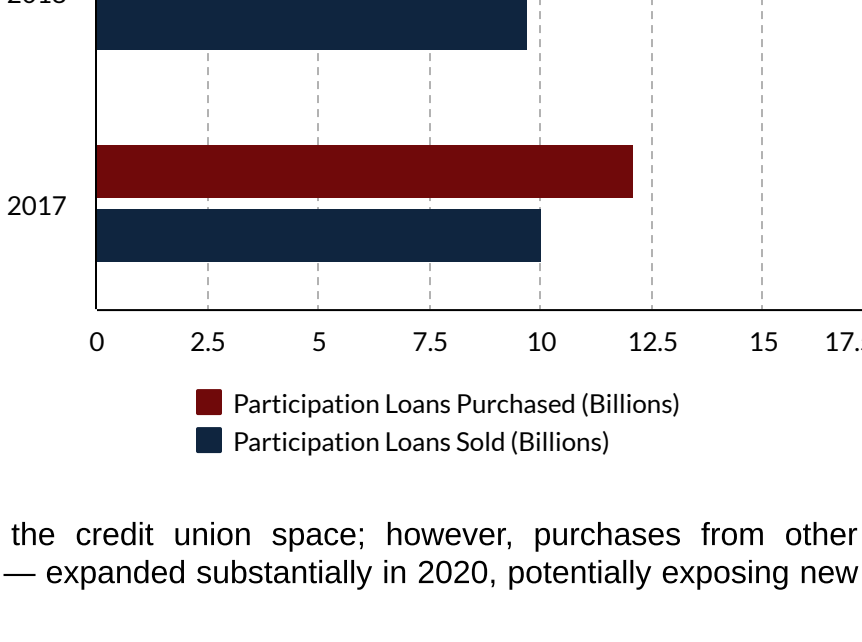
Participation Loans Sold*

\$13,078,746,318

2020 Growth 32.0% ▲ 2019 Growth 1.9% ▲

*Only when participation interest was sold or serviced. Retained participation interests are reported on the 5300 Call Report but not included in this report unless noted.

Historical Trends For Participation Lending

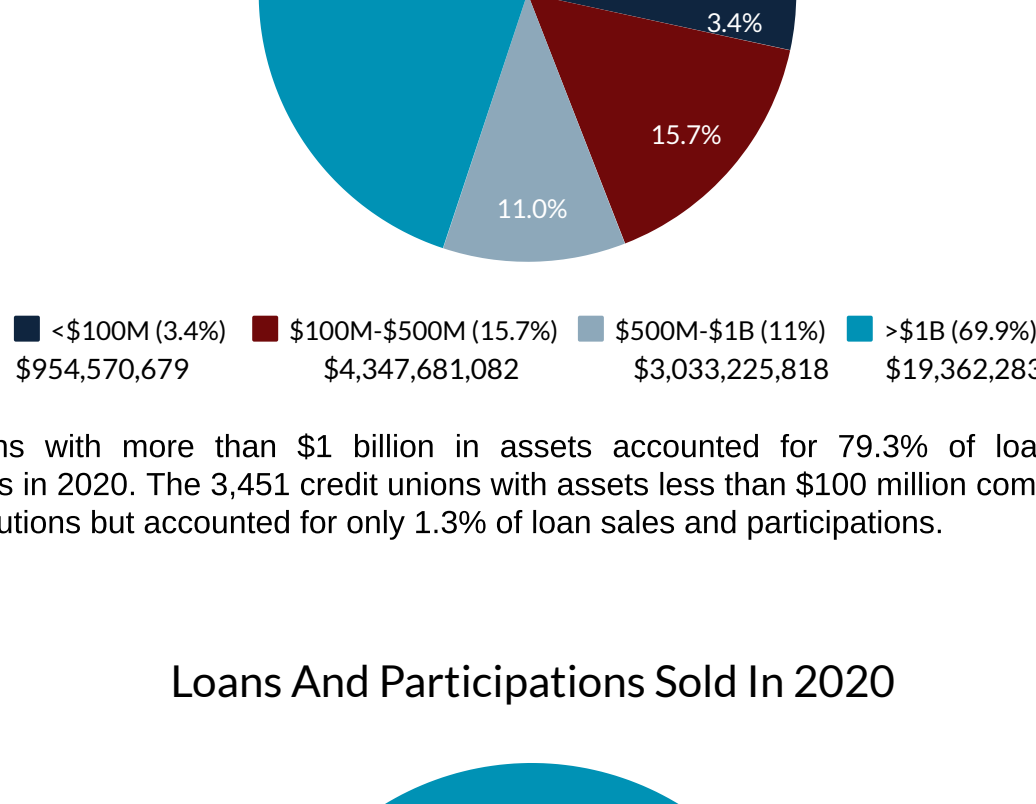


Most participations remained within the credit union space; however, purchases from other financial institutions — such as banks — expanded substantially in 2020, potentially exposing new members to the movement.

Purchase & Participations By Asset Band

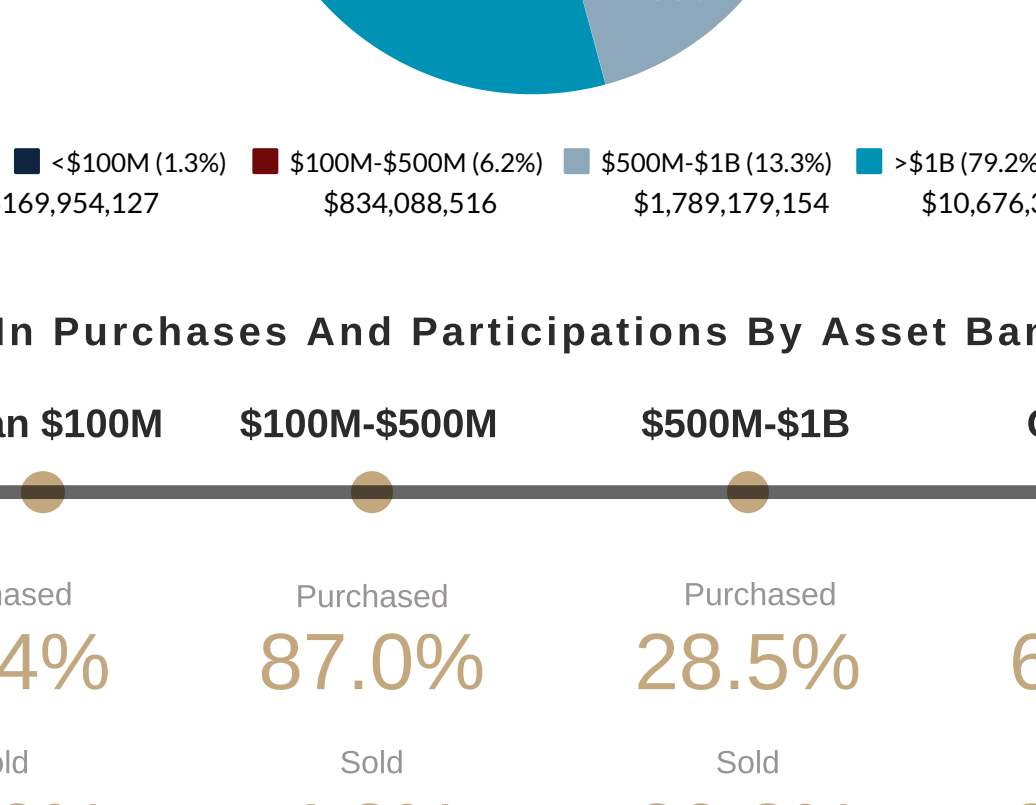
Purchase, participation, and sale activity is centralized among the largest credit unions. Despite comprising only 7.2% of the industry by number, credit unions with more than \$1 billion in assets accounted for nearly 70.0% of all purchases and purchased participations in 2020. Credit unions with \$100-\$500 million in assets, which comprise 21.1% of the industry, accounted for the second-highest share, 15.7%.

Loans And Participations Purchased In 2020

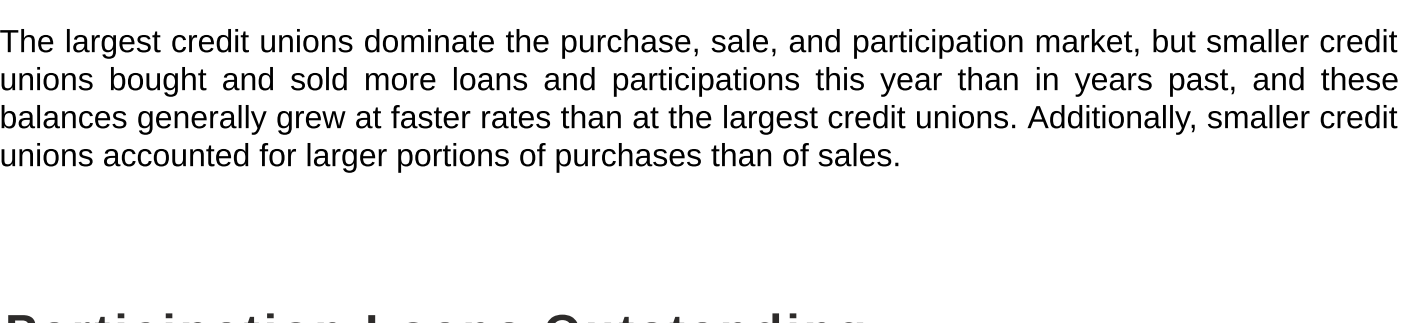


Credit unions with more than \$1 billion in assets accounted for 79.3% of loan sales and participations in 2020. The 3,451 credit unions with assets less than \$100 million comprised 66.3% of total institutions but accounted for only 1.3% of loan sales and participations.

Loans And Participations Sold In 2020



Growth In Purchases And Participations By Asset Band



The largest credit unions dominate the purchase, sale, and participation market, but smaller credit unions bought and sold more loans and participations this year than in years past, and these balances generally grew at faster rates than at the largest credit unions. Additionally, smaller credit unions accounted for larger portions of purchases than of sales.

Participation Loans Outstanding

2020 was a record year for buying and selling loans and participations. These transactions carried over into growth in outstanding loan balances

Participation Loans Purchased

\$37,849,712,688

2020 Growth 12.1% ▲ 2019 Growth 7.0% ▲

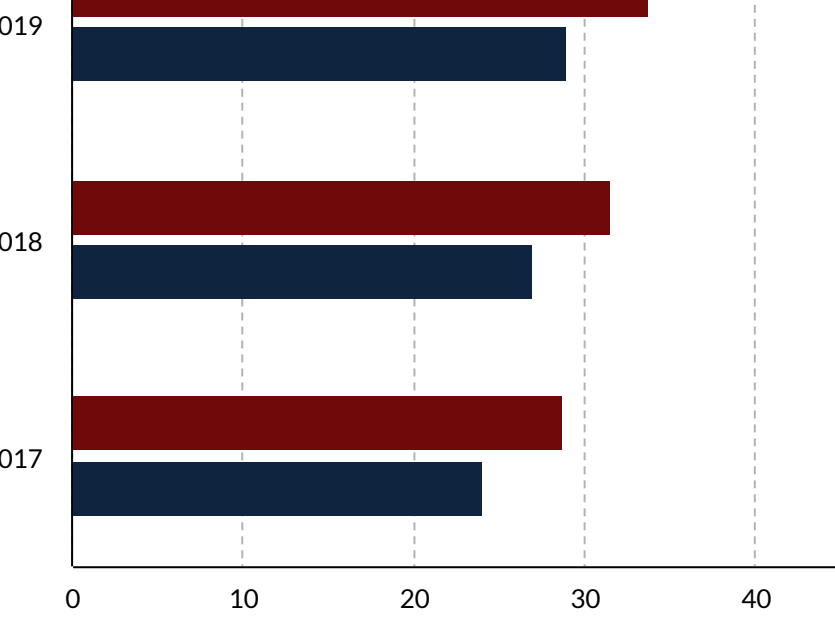
Participation Loans Sold*

\$31,566,767,346

2020 Growth 8.9% ▲ 2019 Growth 7.6% ▲

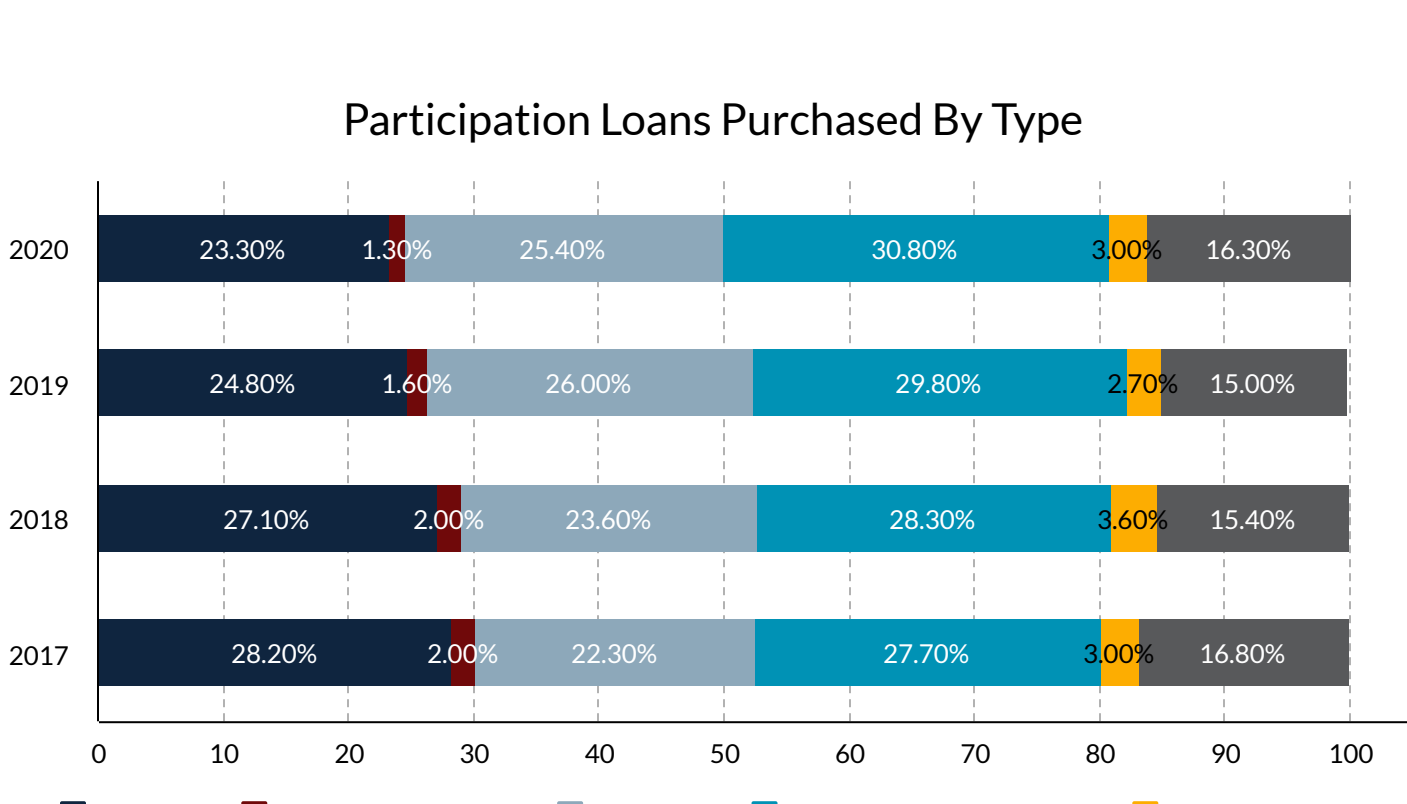
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Participations Purchased And Sold



The 5300 Call Report provides data for outstanding participation loan balances as related to loan type. Reviewing this breakdown, and trending it over time, shows what types of loan participations credit unions are buying and selling, and how these categories have shifted during the past year.

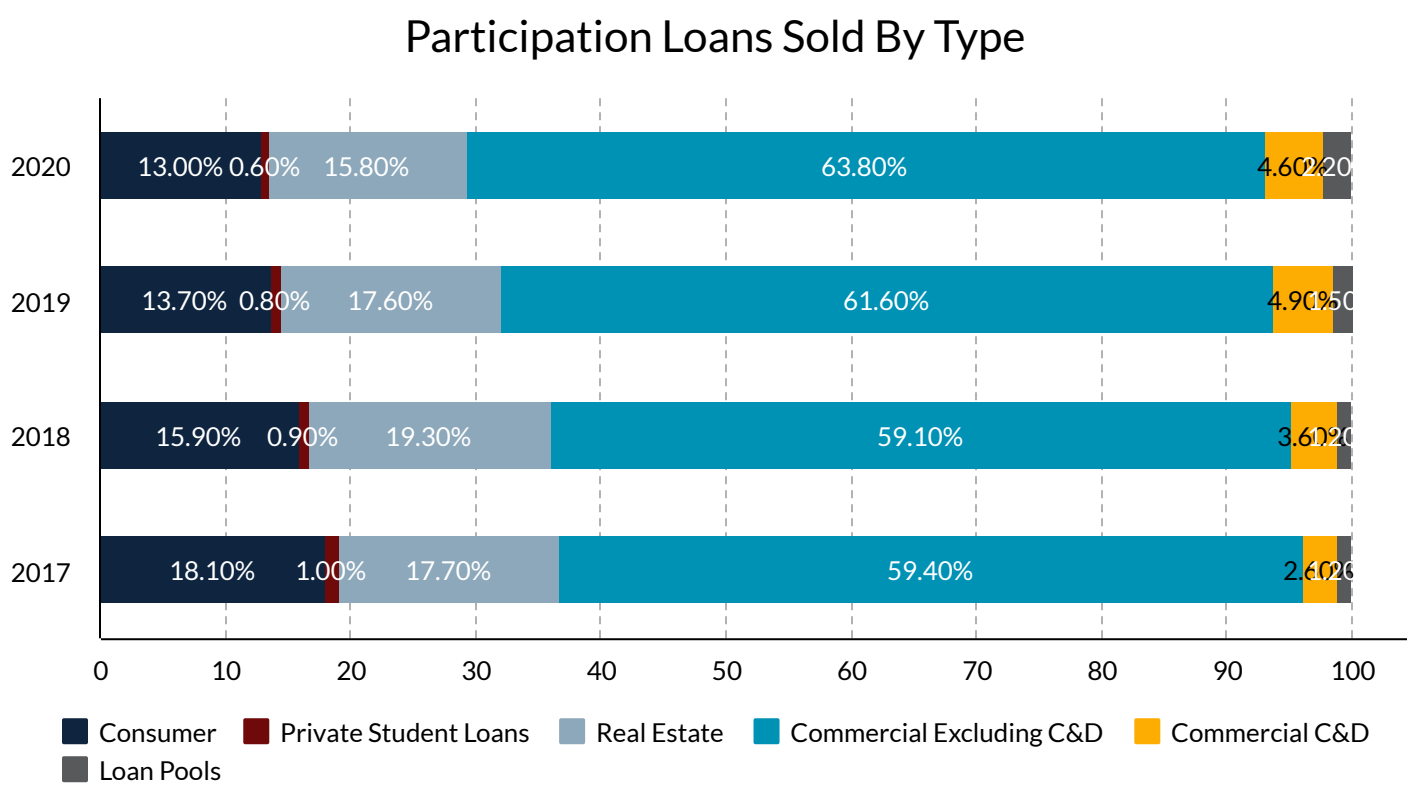
Participation Loans Purchased By Type



Loan pools grew at the fastest rate of all segments — 21.9% or \$1.1 billion. Commercial loans and participations grew 16.1%, or \$1.8 billion, year-over-year and comprised 33.8% of outstanding participations as of Dec. 31, 2020. Shares of consumer and real estate loan participations contracted 1.5 and 0.6 percentage points, respectively, despite modest annual growth — 5.2% and 9.3% respectively — in each.

All told, consumer loans were in demand, but there was little supply. Credit unions looking for additional loans were forced to turn to commercial and loan pools to grow their balances.

Participation Loans Sold By Type



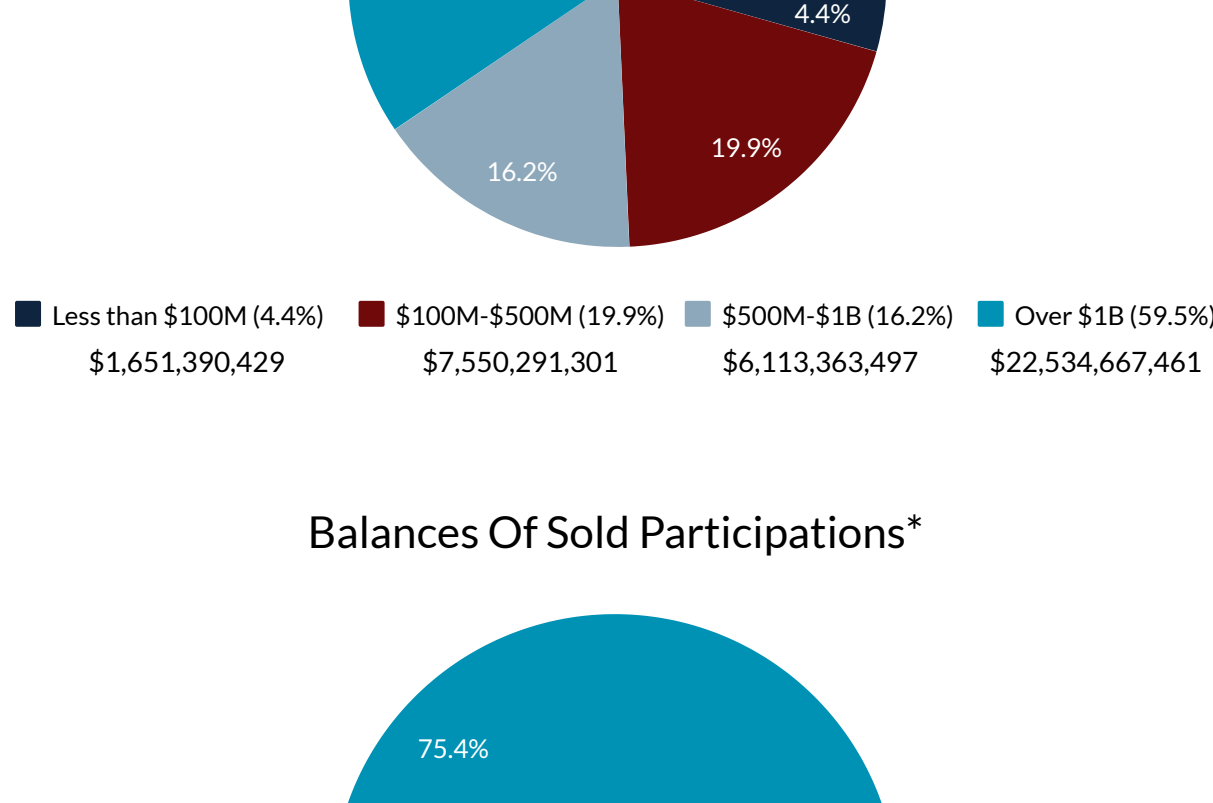
Although consumer loans were in demand, credit unions were more willing to share in the risk — and potential reward — of the commercial loan business in 2020. Commercial participation loans jumped \$723.1 million during the year, increasing their share of the participation sales portfolio by 1.9 percentage points and composing 68.4% of the portfolio by year-end. Despite growing \$58.6 million, consumer participations sold lost 0.7 percentage points of portfolio share.

Participations Outstanding By Asset Band

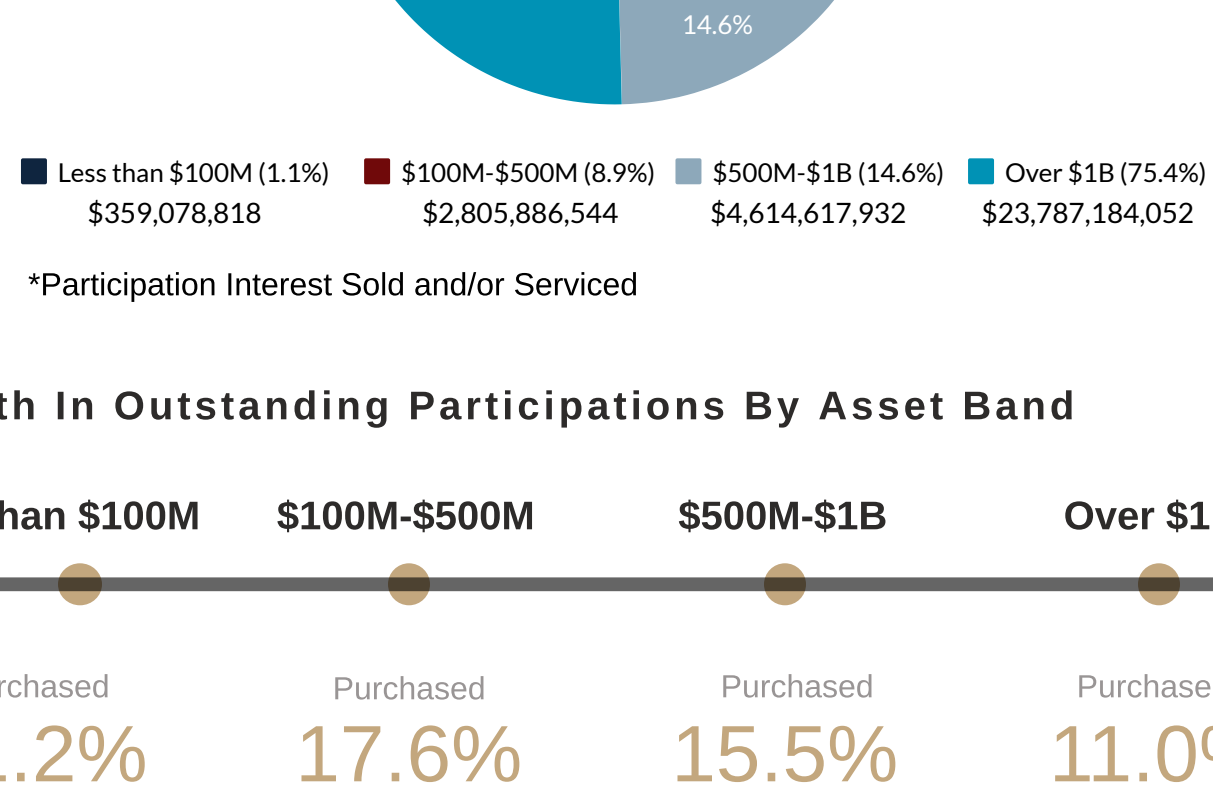
Large credit unions are, generally, selling loan participations to smaller credit unions at a faster rate than the inverse. Economies of scale might have disproportionately benefited large credit unions in 2020, and smaller credit unions used the secondary market to supplement their portfolios at an even greater rate than in years prior.

Credit unions with more than \$1 billion in assets held the largest share of purchased loan participations; however, growth in this category favored smaller credit unions. In participation sales, mid-sized credit unions reported the fastest growth. Credit unions with more than \$100 million in assets reported a year-over-year increase in participation sales, whereas credit unions with less than \$100 million in assets sold fewer participations in 2020.

Participations Purchased

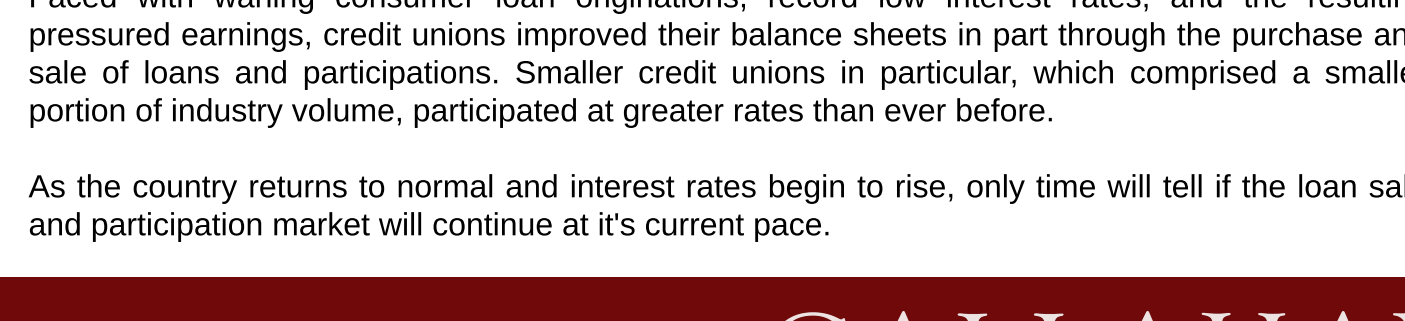


Balances Of Sold Participations*



*Participation Interest Sold and/or Serviced

Growth In Outstanding Participations By Asset Band



Faced with waning consumer loan originations, record low interest rates, and the resulting pressured earnings, credit unions improved their balance sheets in part through the purchase and sale of loans and participations. Smaller credit unions in particular, which comprised a smaller portion of industry volume, participated at greater rates than ever before.

As the country returns to normal and interest rates begin to rise, only time will tell if the loan sale and participation market will continue at it's current pace.