



# Participation Lending

Michael T. Abraham

President & CEO, First Financial Credit Union

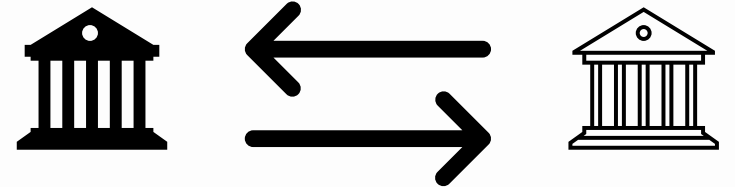
# By the end of this presentation, you will be able to...

- Define participation lending
- Understand the pros & cons of participation lending
- Take the first steps to building a participation lending program of your own!



# What is participation lending?

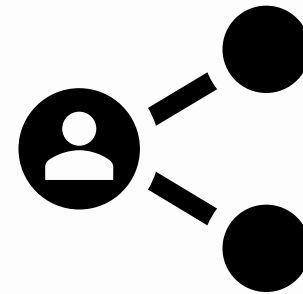
- Participation lending is the exchange of a secured interest in a loan for capital.
- There are two parties to the transaction, a “buying” CU and a “selling” CU.
- The buying CU invests in a portion of the loan(s) made by the selling CU.





# What is participation lending?

- Both parties are now “participating” in the loan and have a vested interest.
- Each time a payment is made, the selling CU will remit a pro-rata portion of the payment to the buying CU.



# Example

**Credit Union ABC** makes a loan for \$100,000.

**Credit Union 123** buys 90% of the loan through a participation agreement.

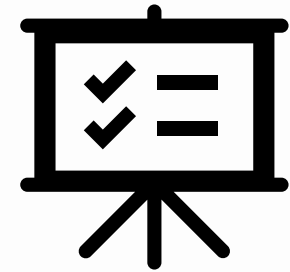
**Credit Union 123** sends **Credit Union ABC** \$90,000.

Each month, as the member makes their payment to **Credit Union ABC**, they send **Credit Union 123** 90% of the payment they receive.

This arrangement continues until the loan is paid off.

# Why do CU's use participation lending?

- CU's can use participation lending to:
  - Deploy excess capital or manage liquidity
  - Re-balance their loan portfolio
  - Generate more loans for members
  - Make more interest income for the CU





# Understand the Dynamics

As with any asset strategy, there are pros and cons to be considered.

## Potential Pros

- Buyers use excess capital to earn interest income, typically at a better rate than investments
- Can be useful Asset Liability Management Tool to help with concentration risk or liquidity challenges
- No acquisition / marketing cost
- Minimal or no staff proficiency needed

## Potential Cons

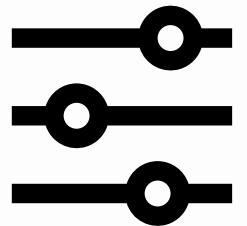
- Participations come with the same default risk as loans made to your members
- Underwriting criteria is determined by CU that makes the loan

# What else is there to know?

You don't have to go it alone.

There are a few ways you can get involved in participations:

- 1) Work directly with another CU on a 1-1 basis
- 2) Work with a broker that can help you find buyers/sellers
- 3) Buy or sell directly with a public pool





# Where do I start?

If you're interested in exploring participation lending at your CU, you should:

- Start with policy – allowable or will you need to update?
- Understand your strategic objective (you may need to create / tweak your policy based on what your CU needs)
- Communicate with your Board & Examiners
- Consult the league & your peers!
  - I'm happy to serve as a resource!



Thank you!