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Start Reaping the Benefits Of Participation Loans Today!

Contact CU*Answers Management Services for assistance with:

- Understanding the ins and outs of buying and selling participation loans
- Developing a participation loan policy
- Creating a participation agreement (with the help of legal counsel)
- Selling participation loans
- Buying participation loans
- Researching financial institutions and loan brokers through which to buy and sell participation loans
- Understanding NCUA regulations governing the types of loans that can be bought and sold as participation loans
- Selecting the loans you'd like to sell as participation loans
- Determining the rate and terms of participation loans you'd like to sell
- Setting up your participation loans in the CU*BASE participation loan system
- Issuing a Certificate of Participation to those buying your participation loans
- Monitoring delinquency, collections, and charge offs of participation loans you sell
- Conducting an annual review of participation loans you buy

Contact CU*Answers Management Services to get started!



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Participation Loans

*Tips and Best Practices from
CU*Answers Management Services*



Interested in participation lending but don't know where to start? Need help getting a participation lending team up to speed and working efficiently? Look inside for tips and best practices from CU*Answers Management Services!



Getting Started with Participation Loans

The first step in introducing participation loans is to develop a participation loan policy for your credit union and have it approved by the Board of Directors. Then, with the help of legal counsel, a Participation Agreement is created to be executed between the originator and participant. All the terms of the selling or buying of participation loans are outlined in the agreement.

Selling Participation Loans



There are several reasons that a credit union may want to sell a portion of a loan. The loan may be too large to make per regulations or the credit union might want to lay off some of the associated risk by selling a percentage of the loan. The credit union may not have the liquidity to make the loan but does not want to turn away the loan.

Sources through which to sell participation loans include credit unions, financial institutions, and participation loan brokers. Additionally, financial directories such as the Callahan Directory are helpful in finding sources through which you can sell participation loans. Look for credit unions with a low loan-to-share ratio and high investments. The credit union cannot sell to an individual; it must be a financial institution.

Steps to Sell a Participation Loan

1. Develop a loan participation policy.
2. Reach out via networking, third parties, etc. to obtain buyers.
3. Execute a Master Participation Agreement.
4. Select the loans you'd like to use as participation loans.
5. Determine the rate and terms of the participation loan.
6. Provide participants with copies of loan documents and underwriting information.
7. Issue a Certificate of Participation.
8. Set up the loan in the CU*BASE participation loan system.
9. Service the loan monthly by providing the participant with payments and reports.
10. Monitor delinquency, collections, and charge offs.



Buying Participation Loans

A credit union will buy participation loans if they have a low loan-to-share ratio and want to increase their loan yield. The credit union may have a large amount of liquidity, and loan participations generally pay a higher yield than investments. They may be trying to diversify their loan portfolio. The type of loan being purchased must be one that the credit union can make under their own policy.

Sources through which to buy participation loans include credit unions, financial institutions, and participation loan brokers. Additionally, financial directories such as the Callahan Directory are helpful in finding sources through which you can buy participation loans. Look for credit unions with a high loan to share ratio and low investments.

As with selling participation loans, a Certificate of Participation is executed. The amount, terms, and percentage of the loan are outlined. The originating credit union must retain at least 10% of the loan. Any limitations per NCUA regulations governing the type of loan must be considered.



Steps to Buy a Participation Loan

1. Develop a loan participation policy.
2. Reach out via networking, third parties, etc. to find loans to buy.
3. Perform due diligence on the originating institution by reviewing their financials, delinquency reports, etc.
4. Execute a Master Participation Agreement.
5. Determine the rate and terms of the participation loan and ensure the originating credit union retains 10% of the loan.
6. Have your credit union loan officer approve the purchase of the loan.
7. Service the loan monthly including processing payments, reviewing reports, balancing the general ledger, and monitoring delinquency.
8. The originator will issue a certificate of participation.
9. Conduct a quarterly or semiannual review of member loan payment history.
10. Conduct an annual review of purchased loans.

