

Credit Unions Positioned For Financing Pivot

Reductions in liquidity are disrupting a key method of loan sales among credit unions, prompting more of the institutions to look at securitization as an alternative.

Credit unions often diversify and lighten their balance-sheet loads via so-called loan-participation sales, arrangements in which they buy and sell ownership interests in loan pools to one another via brokers. Participants share ownership of the accounts as well as rights to collect principal and interest payments.

The idea is that by creating deeper pools of receivables — most often auto, student and recreational-vehicle loans as well as mortgages — the institutions also can share the associated risk. The transactions also bring high yields and exposures to broad mixtures of loans from diverse geographical footprints.

Participations can be structured pari-passu, with the loans on equal footing, or with senior and subordinate positions. The pools can vary in size but usually aren't larger than \$200 million.

Typically, credit unions have funded them with deposits.

Therein lies the rub. With deposit costs rising across the banking industry, fewer credit unions are able to enter loan-participation sales, especially large ones. And that's sapping liquidity for loans that the operations typically would have routed into such arrangements.

In response, major credit unions including **Alliant Credit Union, GTE Financial, Golden 1 Credit Union, Navy Federal Credit Union, Pentagon Federal Credit Union** and **Valley Strong Credit Union** are exploring the creation of securitization programs or the expansion of existing issuance initiatives.

That's on top of an already growing push among credit unions to [add](#) securitization to their funding options.

"As credit unions continue to grow ... their participation in the securitization market could substantially increase," said **Sean Banerjee**, co-founder of electronic-trading platform **ORSNN**. "Through securitization, credit unions can diversify the market, offer new investment opportunities and enhance stability for themselves and their members."

Seattle-based **ORSNN** offers a digital infrastructure for institutional trading that facilitates large-scale securitization bids and loan participations among credit unions.

The **National Credit Union Administration** also is encouraging its members to embrace securitization as an alternative funding mechanism as loan-participation sales slow. At the NCUA's Capital Markets Symposium in New York on April 11, for instance, the organization told attendees that "securitization is essential for larger credit unions to manage their balance sheets and tap into a broader investor base."

And while credit unions largely are new to structured-product issuance, the NCUA contends their "size, scale and impact make them attractive to investors." Securitizations also can be faster and more transparent than loan-participation sales, taking place over a matter of weeks as opposed to a standard of about 60 days.

The NCUA opened the path to securitization for its members in 2017 with the adoption of rules that, among other things, created a so-called safe harbor that insulates credit unions' securitized assets from seizure in the event of issuer bankruptcy.

In November 2019, GTE became the first credit union to issue asset-backed [bonds](#), selling \$147.4 million of securities backed by prime-quality auto loans with **Stifel Financial** running the books. GTE returned to market on April 24, selling \$203 million of auto-loan [bonds](#) with **Bank of America** and **Stifel** as underwriters.

PenFed had priced the most recent [offering](#) before that, selling \$484.5 million of auto-loan bonds in August via **JPMorgan Chase** and **Wells Fargo**.

Insured credit unions are holding some \$500 billion of mortgages and more than \$350 billion of auto loans, according to the NCUA. "This increased engagement in securitization has the potential to reshape the [credit union] industry's entire landscape," Banerjee said. ❖