



June 30, 2016

Weekly Post: Analyzing a Loan Pool

Dear Clients-

There are many reasons and incentives for a bank or CU to buy or sell loans. However, a significant obstacle for banks and credit unions related to the purchase or sale of loans is the inability to easily calculate with any certainty the ballpark value and risk of a loan.

Over the years, THC Risk Officer has assisted many clients in evaluating loan pools for the purpose of estimating the fair value of the loan. This fair value estimation would then be used for setting the bid or ask price for the loan. THC Risk Officer is also used by our clients to help determine the suitability of a particular loan pool by performing a pre-purchase analysis and viewing a comprehensive report illustrating the impact on your institution. This analysis can also be performed using different funding sources.

The key Risk Officer report used in analyzing loan pools is called the *THC Risk-Adjusted Performance (TRAP)* report. This Post explains the TRAP report using a recent offering of \$34.9 mm Jumbo Loan Pool Offering from AJ Hilliard Company to illustrate. (Refer to Market Wisdom of this Post.)

Challenges

- Are there loan pools available to buy from sellers servicing released?
- Will there be buyers of my loans on a bulk or flow basis?
- Can I find other banks to participate on a loan participation?

Solution

THC clients can access THC Financial Officer (TFO) via [Access Network](#) on the Risk Officer Homepage in the upper right hand corner as shown below.

support@thomasho.com
1-212-732-2878
[Access Network](#)



Referring to the screen shot below, click *To Transact* and then select *Loan Market*, and

you will see the Jumbo Loan Pool ID 1946 that AHilliard Company offers.

Market Wisdom - Art Hilliard*

\$34.9 Million Jumbo Loan Pool Offering

Here is an opportunity for institutions to acquire high quality, geographically diverse, bank-owned, performing Jumbo loans. This is a live pool open for bidding.

This pool consists of:

- 15, 20 and 30 year fixed
- 5/1, 7/1 and 10/1 ARMs
- GEO - Texas, California, Florida, Illinois, Georgia, North Carolina, Utah and Tennessee
- WAC - 3.831%
- WAFICO - 765
- WALTV – 64.06%
- WA Seasoning – 23 months

Trading:

- This pool is being offered on a competitive bid basis
- Seller will allow carveouts
- Loans are offered servicing released by the seller

Add high quality loans to the balance sheet without origination expense. Gain access to high net worth clients.

Bids are currently being accepted.

Detailed analytics and pool data can be seen on THC Financial Officer (TFO) - loan ID is 1946

Art Hilliard has been in the mortgage industry for 29 years. He has originated, managed secondary marketing, securitizations and settlements, provided mortgage financial advisory and performed multiple mortgage portfolio sales and acquisitions. He was past president of the Illinois Mortgage Bankers Association.



- Getting Started
- To Transact
- To Buy Search
- To Buy Submit
- To Sell Search
- To Sell Submit

Loan Market | My Positions | Under Negotiations

Step 1. Review all outstanding buys and
Step 2. Click the to submit the bid quo

To Buy To Sell

Loan ID	Sale Type	Loan Type	Description	Out...	WAC(%)	WAL	LTV	FICO	Tra...
1946	loan tape	ARM,F...	\$34.9MM 56...	34,895	3.83	4.13	64	765	all:L...

The Loan Tape and THC data input file (PATH) for the pool are available there to provide you detailed information about the loan pool. Via the message box, you can communicate with THC. No message will be broadcasted and all communications go only to THC. This process preserves anonymity of all participants.



This icon lets you access the THC Risk-Adjusted Performance (TRAP) report, which is explained below.

Numerical Example

The TRAP report provides a detailed analysis of each loan in the pool. The report further provides you with the projected cashflow and a summary of the analysis of the pool as illustrated below.

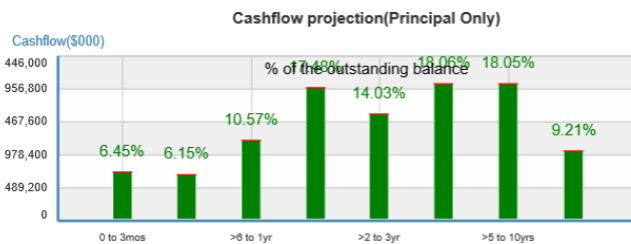
THC Risk-Adjusted Performance (TRAP)

- Evaluate the Pool ([download TRAP](#), [Path File](#) and [View Tape](#))
- Click the header to sort loans, click delete to cherry pick loans, then click create strategy to create the strategy (buy loans vs funding cash) to TFO ALM/TRO trade simulation
- Enter bid price and submit bid quote. The submitted bid quote appears only to your Agent.

	Clean OAS(%)	Yield(%)	Price	Value(\$)
THC quote	1.140	3.0088	103.0429	35,957,021
Bid quote	1.140	3.0088	103.0429	35,957,021
	0.000	0.0000	0.0000	0

Adjust the Bid Quote: (THC Advisor -> THC Advisor)

ALM Analysis	EVE ratio (%)	Duration	% EVE Chg up 400	Short Term /Asset(%)	Margin (%)	NI (\$000)	Earning (\$000)
Base Case	20.23	1.39	-14.09	11.78	2.80	4,797	2,971
Strategy	20.23	4.59	-26.88	-10.37	3.46	5,879	3,729



	Summary	Analytics
Principal Balance(\$)	34,895,207	Short Term CPR(%) 19.19
Participation Balance(\$)	34,895,207	Life Time CPR(%) 17.79
Number of Loans (count)	56	WAL(year) 4.13
Gross WAC(%)	3.831	Effective Duration 2.92
Servicing Fee(bpt)	25	Effective Convexity -1.47
NET WAC(%)	3.581	Weighted Average FICO 765
WAM(mos)	315	Weighted Average LTV(%) 64
Seasoning(mos)	23	Price 103.0429
Servicing Retained By Seller	No	Yield(%) 3.0088

If the pool allows for “cherry picking,” you can select the loans you like using TRAP, and all the analytical results will be dynamically updated. You can use *create strategy* to simulate of purchasing the pool will be created in *Trade Simulations* and *Asset-Liability Management (TFO)*. As you may recall, you can proceed to perform various simulations and generate ALCO reports in *Risk Officer/Trade Simulation*.

As you adjust the quote, all relevant pool analytics are automatically updated. Finally, you can enter your bid quote and submit it to THC, who will act on your behalf to communicate to the seller, again, to ensure anonymity.

Conclusions



Many institutions have a need to buy or to sell loans. THC models offer an objective analytical and valuation platform for participants to negotiate or to submit queries to buy or sell a loan. THC analytical platform seeks to provide loan market transparency to benefit our clients.

If you have any questions on the THC Risk-Adjusted Performance (TRAP) report or THC Financial Officer (TFO) transactional platform, please do not hesitate to contact THC.

Regards,
Tom Ho
Tom.ho@thomasho.com
1-212-732-2878

THC is NOT a broker-dealer. THC only offers an analytical platform for clients to work together to meet your customers' needs or your balance sheet requirements. THC does not collect any commission.

*Art Hilliard is the Principal at AJHilliard Company assisting banks, credit unions, and mortgage companies with mortgage advisory and asset sales and acquisitions.

THE THC CONTENT IS PROVIDED AS IS, WITHOUT REPRESENTATIONS OR WARRANTIES OF ANY KIND. TO THE MAXIMUM EXTENT PERMISSIBLE UNDER APPLICABLE LAW THC HEREBY DISCLAIMS ANY AND ALL WARRANTIES, EXPRESS AND IMPLIED, RELATING TO THE THC CONTENT, AND NEITHER THC NOR ANY OF ITS AFFILIATES SHALL IN ANY EVENT BE LIABLE FOR ANY DAMAGES OF ANY NATURE WHATSOEVER, INCLUDING, BUT NOT LIMITED TO, DIRECT, INDIRECT, CONSEQUENTIAL, SPECIAL AND PUNITIVE DAMAGES, LOSS OF PROFITS AND TRADING LOSSES, RESULTING FROM ANY PERSON'S USE OR RELIANCE UPON, OR INABILITY TO USE, ANY THC CONTENT, EVEN IF THC IS ADVISED OF THE POSSIBILITY OF SUCH DAMAGES OR IF SUCH DAMAGES WERE FORESEEABLE