

BEST PRACTICE: API INTEGRATION

ANALYTICAL TRANSPARENCY IN THE LOAN MARKET-PLACE LENDS FOR EFFICIENT TRADE EXECUTION

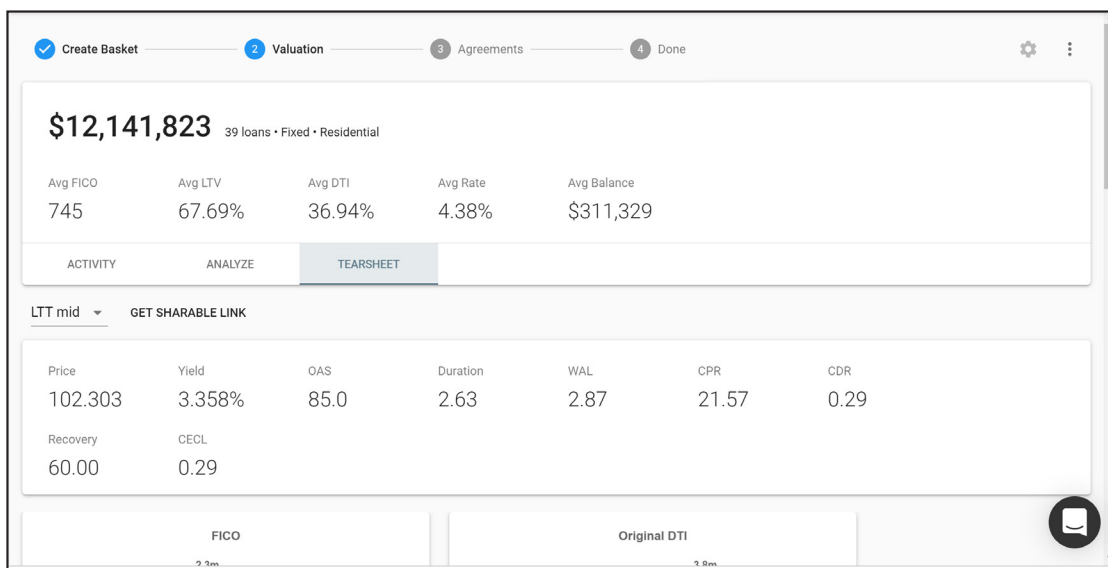
Loan Transactions & Technology, LLC (LT&T), is an electronic whole loan trading network that connects banks, credit unions, and other approved counterparties in a secure environment. By matching relevant buyers and sellers for efficient trade execution, LT&T provides online electronic price negotiation without users needing to install software or worry about licensing fees.

PROBLEM

Trading of whole loans between financial institutions continues to be a relatively opaque market, and, in turn, makes it even more difficult for smaller community institutions to have a competitive advantage in purchasing or selling loans. In developing their secure, cloud-based platform for clients to efficiently evaluate, buy and sell whole loans, and seek loan participation partners, LT&T needed an analytical calculator. This calculator had to provide best-in-class loan analytics, including pricing, risk metrics, and Current Expected Credit Loss, as well as an efficient base-level asset liability management system via an Application Programming Interface (API).

SOLUTION

LT&T chose ZM Financial Systems (ZMFS) to provide the API for their platform to run the analytics. After working with a different asset/liability management vendor, LT&T realized they needed a company that brought more to the table than just data outputs.



Using the ZMFS API, LT&T clients are able to analyze loan assumptions to make the best decisions for trades.

“After extensive research and evaluation, LT&T specifically chose to partner with ZMFS because of their use and acceptance by a large and diverse number of financial institutions and regulatory bodies, pricing accuracy, modeling flexibility, ease of use and implementation, outstanding customer service, and quality and professionalism of every employee that we met,” says John Roberts, President and CEO, LT&T. “We needed a dedicated team of analytical experts who went beyond how the model works, who understand how the calculations impact the data. It’s more than just spitting out numbers – it’s making sure the analytics are detailed and correct, while providing high-level support to our team when we needed it.”

The ZMFS API allows LT&T to access the numerous analytics needed to determine value and risk in any type of loan. The API is completely user interface independent, allowing LT&T to build a web interface that meets its clients’ needs.

RESULTS

According to Roberts, the API was the easy part. The difficult part for his team was coding everything, as the system is infinitely scalable. The cloud-based platform resides in Amazon’s web service with access to virtually infinite on demand server capacity to perform calculations “faster than you might find on Wall Street.”

“Buyers and sellers can see the assumptions driving the reference price and current expected credit loss, such as Option-Adjusted Spread, prepayment speeds, credit default rate and recovery,” says Roberts. “Every loan that comes up as an option to buy/sell has already gone through the filter parameters set by the user, so the review/approval process is shortened. Another key attribute is all trades are permanently recorded, so examiners can log in and see the history of all your loan transactions.”

A “reference price” is calculated by ZMFS’ analytics and used as a starting point for price negotiations. A user can then adjust those assumptions, recalculate pricing and risk metrics, and save the results. The platform allows for direct electronic communication, price negotiation, file sharing, document signing and a permanent record of the entire trade workflow. Institutions looking to sell loans upload their loan tapes to the website. Buyers simply filter across several categories such as balance, LTV, State, FICO score, etc., and submit the inquiry.

“ZMFS brings transparency to the LT&T participants’ transactions by using our proven, robust analytics to power the real-time pricing and CECL calculations on their web-based electronic trading network,” comments Butch Miner, Co-Founder, ZMFS. “LT&T’s clients are able to use this system to see how they compare to their peer groups, and then use the loan level pricing analytics to obtain fair and transparent pricing. It puts everyone on an even playing field in the marketplace.”

BRIEF OVERVIEW OF LT&T/ZMFS API INTERFACE

1. Users create a New Inquiry by selecting what type of loans they want to buy, the amount, along with specific filters such as fixed or adjustable, location (states), FICO score, min/max coupon, etc., and then submit their inquiry to LT&T. See Figure 1.
2. Loans get matched within the system and the seller is presented with a preview basket. Within this preview, the seller can sort loans by balance, origination, coupon, etc., and use the ZMFS analytics provided to calculate OAS, yield, duration, and other results to send to the buyer. See Figure 2.

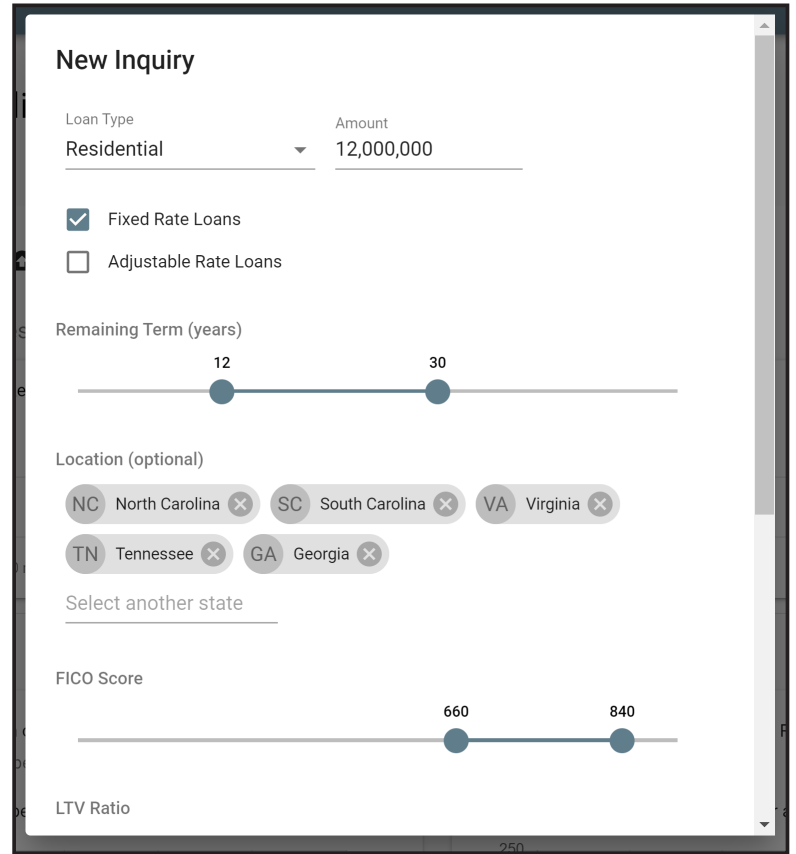


Figure 1.

\$12,141,823 39 loans • Fixed • Residential

Avg FICO	Avg LTV	Avg DTI	Avg Rate	Avg Balance
745	67.69%	36.94%	4.38%	\$311,329

ACTIVITY ANALYZE TEARSHEET

LTT mid base_case +

Price	Yield	OAS	Duration	WAL	CPR	CDR	Recovery
102.303	3.358%	85.0	2.63	2.87	21.57	0.29	60.00

Current Balance	Maturity	Rate	Price	Yield	Duration	Convexity	Avg Life	CPR	CDR	Recovery	CECL
Filter...	Filter...	Filter...	Filter...	Filter...	Filter...	Filter...	Filter...	Filter...	Filter...	Filter...	Filter...
139,717	2032-11-01	4.250	101.671	3.109	1.43	-1.64	1.70	30.66	0.33	60.00	0.22
160,506	2032-11-01	3.875	100.627	3.106	1.93	-1.50	2.20	21.75	1.23	60.00	1.02
185,226	2033-04-01	4.375	101.795	3.061	1.35	-1.67	1.55	34.29	0.32	60.00	0.19

Figure 2.

ABOUT LOAN TRANSACTIONS & TECHNOLOGY

Founded in 2016, Loan Transactions & Technology, LLC, provides intelligent decision process for loan transactions supported by robust loan analytics for the financial industry. LT&T clients gain access to a network that offers loan discovery and analytics, base-level asset liability management and streamlined electronic price negotiation all in one efficient package. Electronically connecting buyers and sellers of whole loans, LT&T is headquartered in Charlotte, N.C., with offices in New Jersey, California and Tennessee.

LEARN MORE ABOUT OUR API OFFERINGS

ZM Financial Systems is one step ahead in positioning you for the future. We offer complete solutions in securities and fixed-income analytics, credit-adjusted ALM, liquidity, risk management, budgeting and funds transfer pricing to 2,000+ financial institutions. Clients depend on our products/analytics to identify, measure and monitor risk and value in their balance sheets every day. We also offer large bank solutions to meet the evolving regulatory risk reporting requirements. Contact us today to get one step ahead:

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