What you need to know to start doing effective Member Business Lending in your credit union – First in a Series

Member business lending (MBL) for credit unions, to be done safely and soundly, first of all necessitates that it be part of a solid overall ALM (assets/liabilities management) policy and strategy. Clearly, the reason that credit unions engage in MBL is to provide a strong value added service for members and to build reserves over the long term. In order to succeed on both of these most basic counts, your Credit Union may choose to seek outside expertise from an established business lending CUSO.

There are several ways for your credit union to meet your members' business lending needs. Each way has specific considerations, with some overlap:

-You can lend directly
-You can buy participations from or sell them to other credit unions
-You can engage a Credit Union Service Organization ("CUSO") to assist in origination, underwriting, servicing and reporting

In all three, again in order to ensure safety and soundness, there are basic ground rules to follow.

First, know the regulations. Those provide the framework for lending, reporting, limits, waivers and examinations. Read and become very familiar with NCUA Part 723 and all twenty-one subsections. The regulations cover topics including definitions, prohibited activities, and implementation. You will also find references to Parts 701, 702 and 741 which address related topics.

Second, identify your goals and objectives for entering into MBL. Your credit union may have various strategic goals for an MBL program. For example, you may have a membership base or a SEG that requests access to added lending to support their business needs. Or you may find that adding the MBL asset class is a profitable way to diversify your balance sheet to supplement current consumer-oriented products such as auto loans, credit cards and home mortgages. Diversification also allows you and your members to branch out from your current geographic area to reduce the potential impact of local market conditions. MBL provides another arrow in your lending quiver, and can provide good risk-adjusted returns to improve loan to share ratios and help increase return on assets. Your goals should include specific asset allocations for MBL as a percent of your balance sheet, bearing in mind the current 12.25% of assets cap, if applicable to your credit union.

Third, develop applicable MBL and participation policies for your Board of Directors to review and approve. See Part 723.6 for specific details, and note that you may find sample MBL policies through CUNA and other industry sources. You will need these policies in place as they will be at the top of your examiner’s request list. Part 723.5(a) specifies that “*The board of directors must adopt specific business loan policies and (document their) review at least annually*”. [Emphasis added]. Annual or more frequent review of policies is a good idea in any event, often done in concert with monitoring performance relative to your strategic plan and economic conditions affecting your credit union.

Fourth, develop procedures and assign specific duties to management and staff for the new functions, analysis, approvals, monitoring and reporting. Note that Part 723.5(a) requires at least two years of direct experienced in a relevant lending program, although prudent credit unions look for a multiple of that by hiring seasoned veterans or by engaging a CUSO. There are numerous procedural considerations when starting an MBL program, including many that parallel your existing consumer lending programs. However, there are material differences, namely in the laws governing MBL, the resulting documentation requirements and the larger average loan balances, each of which contributes to the need for careful preparation, review and execution. Risk is generally greater, but of course so are the rewards. MBL generally is not subject to regulatory consumer lending covenants and compliance restrictions

Fifth, identify likely partners and co-participants. Talk to your colleagues at neighboring credit unions and at conferences, seminars and league events. You can share a lot of useful information about markets, property types and trends, and take that information back to your staff for further knowledge sharing. If you decide to add loan officers, processors, underwriters and servicers to staff, note that you’ll need new job descriptions and increased back-office support in accounting for the unique requirements of the program.

Subsequent installments of this series will look more deeply into elements of MBL including financial goals and analysis, the loan participation process, reporting requirements, vendor due diligence, and ALM.

Business Partners, LLC is now under new ownership with a reconstituted Board, and is operated for credit unions by credit unions, providing MBL origination, participation, servicing and reporting to partners nationwide.

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