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Business Lending Expected to Rev Up in 2004

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ROCHESTER, N.Y. —NCUA's new rules concerning member business lending which became effective Oct. 31, 2003 are still being digested by credit unions, but they're already drawing widespread interest and are expected to spark credit union business lending during the coming year.

That's the word from C. Dennis Beaver, principal of Hill Creek Consulting who has presented workshops on business services for several state leagues, primarily in the Northeast, and has worked directly with both large and small credit unions. As the new year rolls along, he expects credit unions to actually take advantage of the opportunities.

Part 723.1 redefines non-member loans and non-member loan participation.

"There is a limit on the aggregate business portfolio you can have," he notes. "Previously, if you purchased a participation in a member business loan, even if it wasn't one of your members, you had to count it against that limit. Now, if you purchase a member business loan from another credit union and that borrower is not one of your members, you don't have to count that loan in your aggregate portfolio limit.

"What does this mean for a credit union? Well, if you're a relatively small size, and you had previously looked at the total business loan portfolio you could have, you might have decided it wasn't really worth the effort. With this change in the regulation, if you were to form coalitions with other credit unions you could buy participations from them."

The key, Beaver continues, is you can only buy participations if your credit union is actually empowered to make that type of loan. You must approve loan policies and put underwriting procedures in place.

He notes small businesses have been a growing segment of the economy. In fact, one credit union saw its SBA loan volume jump 40% during 2003.

"It's always a case of being able to provide the right dollar amount of financing with the right securities and the right

repayment schedule. Small businesses will continue to look for financing sources that can meet their needs," Beaver says.

From the credit union perspective, he points out, return on loans has been about two and a half times return on investments. A credit union can probably pick up 400 basis points by making a loan rather than a short-term investment.

Beaver adds the credit unions attending his workshops are not totally loaned out. They're looking for the kind of opportunities business services offer.

He helps them identify companies posting \$200,000 to \$2 million in sales. Regional and super-regional banks generally aren't very interested in those firms. They've moved upscale and may define a "small" business as \$10 million in sales.

Know your competition, Beaver advises. Stop by their branches, pick up their business services brochures and visit their Web sites. After you identify the products you want to offer, talk to your systems people. Determine whether your system can support the products you have in mind.

Other steps include writing a loan policy. NCUA regs in essence require you to write that policy around the products you'll offer. To develop your underwriting procedures you'll probably need to hire someone with the know-how or outsource the job.

However, Beaver stresses some words of caution.

"Don't think you can just hire someone and get into business. One thing you never want to do is have a salesman write your loan policies. You don't want him sitting around back in the office developing underwriting procedures and loan policies. You can have an expert get that stuff set up so when you do hire someone they can hit the ground running," he says.

"If you're a CEO thinking about doing

this, we certainly recommend you check with your league and see if they have a preferred partner who specializes in launching business services. See if the league has an educational program. CUNA has a tremendous amount of information," Beaver says.

Credit unions shouldn't necessarily shy away from business services thinking it's dramatically different than their core competency on the consumer side, he indicates.

"The business segment we're talking about are either DBAs or small, closely-held companies. Some of the credit underwriting is not that different than the underwriting for a consumer loan. You'll find you probably

have people who have filed DBA papers with you who are using consumer products for their business," Beaver says.

As he has worked with clients he has identified some key business services – two tiers of checking accounts with a low-volume product for businesses writing perhaps 100 checks a month and a higher-volume product for companies issuing 200 or 300 checks a month; an investment vehicle such as a savings account or a money market account; an installment loan product and a line of credit.

Once you know the territory, a business credit card may be the next product to add. You may also decide to offer commercial mortgages or SBA-guaranteed loans.

Beaver says the true measure of success, as with any product, is how business services contribute to the bottom line. A good business loan officer should be able to generate between \$3 and \$7 million a year in new loans outstanding.

If you're in the early stages, figure you're going to pick up 400 basis points and assume you'll pay someone \$80,000 a year plus benefits. Do the math and figure out how much you have to generate in loan volume to break even.

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