

# The Costs of Getting Into Business Lending

*Your outlay for starting up a program will depend on how much you can do with what you have and how much you want to outsource.*

By Joanna R. Bruno

As business lending consultants, one of the questions we hear most often is also one of the toughest to answer definitively: What will it cost my credit union to get started in business lending? The two biggest variables that will influence your startup costs are how much you can do with what you have, and how much you want to outsource.

For the majority of credit union lenders, there are not separate, distinct paths and obvious choices. Instead, the lending community encompasses a spectrum, with lenders who outsource nothing, keeping the entire process in house at one end, and lenders who outsource all of the deal to a CUSO or another lender at the other end of the spectrum.

Our "best practices" suggestion is to outsource those things that are most expensive and provide the least initial "bang for your buck." Tap available talent within your institution for those functions you already have, or are readily capable of performing.

Your lending efforts will encompass four main areas: sales and marketing; underwriting and analysis; operations and documentation; and servicing.

## **Sales and Marketing—At Least \$5,000**

When it comes to marketing, expect to spend at least \$5,000 for a basic marketing campaign, collateral materials and Web site updates. The sky is the limit when it comes to spending for mass marketing, event planning and aggressive marketing campaigns. In the beginning, a reasonable limit on marketing spending is roughly 25 percent of your overall budget. The goal should be to provide a steady stream of business, without swamping your new department. When it comes to sales, we advise promoting or reassigning a current employee. If you're going to hire, rather than promote current representatives, expect to pay \$40,000 and up a year, based on experience, your local job market and benefits packages.

## **Underwriting and Analysis—At Least \$75,000**

Underwriting is the area in which it is hardest to "make do." There is simply no substitute for experience and training. Expect to spend anywhere from \$75,000 to hire a consultant to \$200,000 to hire an experienced lender. We recommend promoting someone from within, and invest in training. The lender you hire from some other institution can leave just as easily as they arrived.

## **Operations and Documentation—Next to nothing to \$100,000+**

Operations runs the gamut from such things as complex computer systems to more mundane items like filing cabinets and desks. Do you have adequate space if you're going to hire new staff? Can you fund a commercial loan? If not, is there a module for your core system or would you need to purchase a new core processor? Costs for this can range from next to nothing to hundreds of thousands of dollars.

Do you currently have the ability to close and document a commercial loan? As with underwriting, you can hire a note department and purchase software, to the tune of \$100,000 or more. If you would rather not pursue that route, you can use a lawyer, but the price can be as high as \$5,000-\$10,000 per loan. Another option is to use a closing document provider, such as [eDocs-Express](#), with a set-up fee in the \$5,000 range.

If you're making Small Business Administration loans and have the ability to handle servicing in house, you should do it. If you're not making SBA loans, your servicing may or may not be revenue-generating. If, of course, you don't have the capability to service, costs can be relatively cheap. [Colson Services](#), for example, provides servicing at a very reasonable cost.

In conclusion, expect to spend at least \$100,000 the first year if you plan on building a long-term program. If you want to hire a whole department, and take the risks inherent with that procedure, expect to spend upwards of \$400,000. If you decide that commercial lending is not for your institution, talk with other local credit unions. Without a doubt, one of them would be glad to take your referral business. Beware, though, business lending is rapidly becoming an expected credit union product, just like car loans!!

**Joanna R. Bruno** is president and founder of [J.R. Bruno & Associates](#).