

### **Key to Successful MBL: Underwriting the Credit Memorandum**

With credit unions front and center in the news, and with new members still streaming in, the time is right to ensure they stay. Right for Member Business Lending. If you haven't done so already, now's the time to mine your member database for business owners - and offer them and new members your range of products, including business loans.

Yes, business loans are a different animal. Underwriting isn't cut and dried like an auto loan, HELOC or a personal line of credit. With the average credit union personal loan at \$15,000 and the average small business loan at \$500,000, your organization could take a heavy hit if you don't thoroughly underwrite your potential business loans.

The standard consumer loan application that looks at such factors as credit reports and appraisals won't do. Business loans in general require more extensive examination. A comprehensive credit memorandum that thoroughly analyses the business is critical to mitigating your risk - and to serving your members.

Your credit memo should provide a reason to lend and importantly answer the question, "What are my credit union's needs in terms of making this business loan?" Only when you understand all the factors and put the puzzle pieces together can you come up with an answer. So what goes into a credit memorandum? A credit memo can take any form, but it should include these elements:

- The industry and what the company does
- Company financials. Certain publications like Risk Management Association, identify industry standards for such items as receivables turnover and basic financial ratios
- Inventory on hand. Inventory needed to meet demand
- Costs of labor. Number of employees. Number of outside contractors
- Fixed overhead, general and administrative
- Sales, who are the customers and what is the effect of the economy on the business?
- Debt and service analysis. Does the company make enough profit to repay the loan?
- Collateral analysis. Is the credit union adequately secured?

- The personal side. Can the business service its debt and provide sufficient income for the personal needs of the owner?
- Where the business is today. Where it sees itself in five years.

From our perspective as consultants, we see that many credit unions aren't doing complete credit memorandums. We talk to them every day. If you're just entering MBL, you might start with the SBA. They'll tell you what they want and offer basic instruction on writing a credit memo. If you use SBA standards for all your business loans, you won't go far afield. Also, the SBA reviews your application as part of the approval process and will be sure all issues are adequately addressed.

Of course taking that route - with its inherent back-and-forth communications between your credit union and the SBA - will take longer. So call us. We can assist you in developing a credit memo that will thoroughly analyze the company and provide what the industry and regulators want to see. We have the expertise to provide a solid foundation for your MBL program - and we'll stay with you throughout the process. We look forward to discussing your credit union's business lending needs!

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