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Business Lending News

DENYING SBA & BIZ LOAN APPLICATIONS ... TIMELY RESPONSE IS KEY: HAVE YOUR COMMUNICATIONS READY!

In working with credit union clients that are new to business lending, we've advised several that in addition to consumer protection, Regulation B also applies to business loans. The NCUA's [Office of Consumer Protection Fair Lending Guide](#) spells it out:

"The Equal Credit Opportunity Act (ECOA) [implemented by Regulation B 12 CFR 1002] prohibits discrimination in any aspect of a credit transaction. It applies to any extension of credit, including extensions of credit to small businesses, corporations, partnerships, and trusts."

So as with consumer loans, Regulation B requires credit unions to formally respond to every business loan application submitted and to notify applicants of the credit decision within 30 days of receiving a completed application. That said, at what point should you deny a business loan application?

- When analysis of the applicant's credit, financials and/or their ability to repay the loan are deemed unacceptable following review of the completed application.
- When the applicant hasn't responded to requests for additional information within a stated time frame.

Nothing beats having your ducks in a row - and your communications lined up! If you don't have them already, you should have standard form letters in your system containing fields to enter applicant-specific information. In addition to a letter acknowledging receipt of the application, we recommend:

- Adverse Action Letter (Denial Letter): After formal review, a letter sent within 30 days of receiving the completed application notifying the applicant of the loan denial and the reasons for the denial.
- Letter of Incompleteness: Letter notifying the applicant that more information is needed. We suggest sending it within 2-3 days of receiving an application. List the specific information needed before the credit union can proceed, and give a specific due date for response. The time frame can be your decision. We suggest 2-3 weeks, allowing the applicant time to gather the information. The 30-day clock starts ticking when you've received all the needed information.
- Best Practice (Non-Response Letter): Letter stating that the credit union hasn't received response to its request for information within the stated time frame and is considering the application withdrawn. This letter will document to your regulators that your credit union reviewed the application and communicated in a timely manner.

As consultants to the SBA and business lending community, our expertise is in assisting your credit union in establishing and maintaining your member business lending departments. For specific compliance questions contacting your regulator directly is your best bet.

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