

Member Business Lending

Is your Credit Union considering Member Business Lending? Many Credit Unions are investigating their options and evaluating their goals and strategy, while others are content to dabble in commercial real estate. Whether you are just looking to MBL or have already set a plan in motion, consider the US Small Business Administration 7(a) Loan Guarantee Program. A SBA loan program can make a good MBL department great.

Utilizing the SBA allows you to do two important things: one, it reduces your risk and two; it increases your immediate cash flow. The average small business loan made by a Credit Union is approximately \$100,000. As a regular Member Business Loan, your liability is \$100,000. If you were to do this same loan as an SBA 7(a) Loan, you could use the Low Doc program which carries an 85% guarantee. That means your risk is only 15% of the principal, or in this case, \$15,000. The remainder of \$85,000 is fully backed by the US SBA and does not count against your 12 ½% rule. This not only allows you to reduce the risk per loan, but allows you to underwrite more loans, and further reduce your risk through diversification.

The second benefit of issuing MBL's through the SBA is income. When you make an SBA loan to a member, you have the option of selling the Guaranteed portion (that 85% we spoke about earlier). There is an established, well-structured secondary market where investors interested in purchasing US Government backed securities buy the guaranteed portion of SBA loans. The premium on the sale of the guaranteed portion can be as high as 10 points!

If you offer Member Business Lending, or are merely investigating it, take the time to weigh your SBA options. I think you'll find that the value it can add is enormous.