

MBL ANXIETY: Business Lending Risks Counted Among Highest Concerns of CUs Contemplating Serving Businesses

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"Credit unions have a chance to do business lending right," said Spencer, whose experience includes more than 15 years of commercial lending at banks and a credit union. "There's no reason (credit unions) can't look at banks and see the pitfalls they've made and learn from it. We don't want to be complacent."

Spencer said getting everyone on the same page starts with having a service level agreement.

"Everyone agrees to what the business lending experience will be - will it be a (toll-free) number, should it include the same type of delivery channels like a member call center, branches and Web site," Spencer said. "If you look at bank counterparts, they involve all three."

From there, there must be a mid-management buy-in on what the training will entail, Spencer said. At this point, all have agreed that business lending is a viable product for credit unions and the process of bringing everyone up to speed on what products and services will be offered starts. This stage is critical, he added.

"Even credit unions that have been doing member business lending for awhile, still feel like an isolated island," Spencer said.

That's why when the actual staff training begins, everyone is clear from the onset of what types of businesses will be served by the credit union. Spencer admits it takes a lot of time and effort to train employees and part of the education process begins with the addition of a new philosophy.

"You're taking credit union branches that are consumer focused and adding a business slant," he said. "All of a sudden, you have Wal-Mart with its ten accounts or a car wash with its business deposits. There's a lot of fear and apprehension in branches to learn about businesses."

One crucial and often expensive component for a member business services launch is technology enhancements. Any movement forward will mainly depend on what systems a credit union has in place and whether they're equipped to handle business deposits and loans, Spencer said.

Hiring the right lending professionals is just the start but what often happens is a series of sidetracks for that new hire.

"When that lender is hired, the focus should be on lending," Spencer said, who recalled his previous experience as a commercial lender.

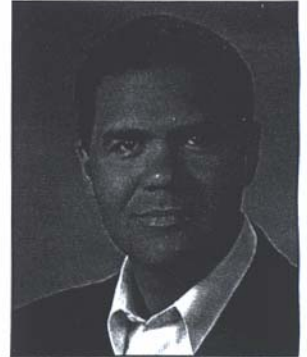
"When I first came in, I had to build 13 other products such as business checking, savings and

credit cards. I had no choice. These things had to get done and the responsibilities fell back on me."

A lender typically will be hired at a \$70,000 to \$80,000 salary, Spencer said. Technology enhancements may start at \$50,000 coupled with the costs of rolling out business services and products. That first year of launch may bring in a few million dollars in loans for a credit union, he estimated. The second year, the lender spends more time on loans, but the staff training and education falls along the wayside. That same year, the loan portfolio may

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indeed see more growth and as a result, more staff is needed to keep up with the volume. By the third year, growth continues but more staff is needed.

"Management may balk at this and say 'we were able to keep up with the staff we had last year,'" Spencer said. "But you still have lines of credit that need to be renewed. All of this could have been avoided in the very beginning so that everything was understood."

The member business services program at \$1.9 billion GTE Federal Credit Union in Tampa, Fla. is thriving since its launch two and a half years ago. It has 2,900 business deposits and 81 business loans totaling \$16 million; another \$3 to \$4 million in commitments; \$10 million approved but not closed; and \$30 million in backlog, according to Bob Ellis, director of business services. Ellis said because business lending is a different animal than consumer lending, there are more risks involved.

"With consumer lending, virtually everybody has a budget to live by day to day," Ellis said. "It's pretty easy to figure out if they have the cash flow to afford a consumer loan. Once you put that loan on the books, got your title work, it's pretty much a non-entky."

With business loans, more factors are looked at, Ellis said. Each relationship that's established

becomes an ongoing one and must be monitored on a regular basis.

"Even people who have small businesses, pay themselves so they can eat, pay the mortgage and car loan," he pointed out. "But that doesn't necessarily mean their small business is producing a consistent income stream to be able to pay back a loan to the business."

Ellis, a 32-year commercial lending veteran, pointed out the differences to make the point that some credit unions may be leery of the risks that come

with business loans.


"There's a difference with \$4 million in car loans and one \$4 million business loan," he further illustrated. "With the car loans, you've spread your risk over how many cars you have but with one \$4 million business loan you take on more risk. You are at the mercy of the performance of the business and take the risk of whether you will get paid."

Ellis agreed with Spencer saying a good starting point for senior managers who may be reluctant to make the move to business services is adapting a new mindset.

"Credit unions need to understand the difference between consumers and businesses and their needs and adapt their philosophy, not change it," Ellis said. "You have to be able to supply those (business) needs and not pick and choose which ones you want to supply."

For credit unions still uneasy, Spencer encourages them to form or join an MBL CUSO but with some caveats. He said it may be hard to have a service level agreement that everyone is happy with when several credit unions are involved. Some credit unions are also lulled into a "hands off" notion, meaning once they join, they don't need to do anything else. Training and commitments from senior management from several credit unions can be tricky, Spencer said. Technology enhancements also must be ironed out early on particularly if six have the same system but two don't, for example.

Many industry experts advise credit unions to start with identifying a need within their membership first. As select employee groups continue to become members, Spencer said that market is immediately identified. But for some of the medium-sized credit unions, the market will dictate whether the time is right to launch a business services program.

"Most of them know that the community banks are their competition," Spencer said. "They know at some point, they will need to do it. Just as mortgages helped credit unions 15 years ago, credit unions are starting to see there is a market for business services." 

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