

NCUA LETTER TO CREDIT UNIONS

**NATIONAL CREDIT UNION ADMINISTRATION
1775 Duke Street, Alexandria, VA 22314**

DATE: February 2004 LETTER NO.: 04-CU-01

TO: Federally Insured Credit Unions

SUBJ: Small Business Administration Loans

ENCL: AIRES SBA Loan Questionnaire

Dear Board of Directors:

Recently, examiners were provided with the enclosed questionnaire in an effort to assist them in evaluating loans guaranteed by the Small Business Administration (SBA).

SBA helps small businesses meet their financing needs by providing partial guarantees of repayment on new commercial loans. To qualify for a guarantee, a loan must be underwritten to meet SBA eligibility standards and to ensure the reasonable likelihood of repayment.

The SBA program offers experienced lenders the opportunity to mitigate risk on loans to small businesses through partial guarantees. While full repayment of partially guaranteed member business loans continues to depend on sound underwriting and servicing practices, the risk mitigation provided by SBA guaranty programs may enable credit unions to work with additional member-borrowers.

While participation in SBA guaranty programs offers the potential for credit unions to assist existing and start-up small business with financing needs, participation may also expose credit unions to potential risk in multiple areas. As with any new program, credit unions must evaluate the associated benefit and potential risk exposure prior to participation. When evaluating the overall risk, particular attention should be given to the following:

Credit Risk

Existence of a partial guarantee from SBA on repayment of a loan amount is not

a substitute for sound underwriting. Prior to making SBA loans, a credit union should establish a process to properly underwrite, service, and monitor member business loans. This process may consist of internal expertise, outside service providers, or a combination of both based on appropriate due diligence reviews.

Compliance Risk

To maintain the full SBA guaranty, a credit union must comply with applicable SBA documentation, reporting, and servicing requirements. Required forms must be completed properly, monthly reports submitted timely, and appropriate steps taken to address delinquency or other changes in the repayment stream.

SBA loans are commercial loans and may qualify as member business loans. As such, federal credit unions should comply with the borrower equity, experience, and concentration requirements established in Part 723 of the NCUA Rules and Regulations. Federally insured credit unions should comply with Part 723 or similar state regulations, as required by their primary regulator.

Reputation Risk

As with other programs, officials are encouraged to carefully evaluate the potential benefits and costs associated with SBA lending when considering whether to participate in this program.

If you have any questions, please contact your NCUA Regional Office or State Supervisory Authority.

Sincerely,

/S/

Dennis Dollar
Chairman

Enclosure