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NCUA Press Release

PALS Workshop Teaches Credit Unions to Safely Make More Business Loans

Partnerships Help Credit Unions Share Risks and Rewards

March 29, 2004, San Francisco – More than 230 credit union leaders learned innovative ways to safely make member business loans at the National Credit Union Administration's (NCUA's) latest Partnering and Leadership Successes (PALS) workshop, March 25 in San Francisco.

At this workshop, the fifth of NCUA Board Member Debbie Matz's PALS initiative, credit union business lenders and government experts shared success stories and offered advice on how to safely manage member business lending risks.

"One of the best ways to manage risks is to partner with the Small Business Administration," suggested Matz, who serves as NCUA's liaison to SBA. "You can serve a wider range of small businesses, earn SBA loan guarantees, and make more loans because the guaranteed portion of each loan is not counted against the member business loan cap. We hope that if you decide to make member business loans, you go to your local SBA office and become an SBA lender."

Matz and NCUA Vice Chair JoAnn Johnson, who worked together to develop NCUA's new member business lending regulation, reminded the attendees that business lending is not for every credit union. But they emphasized that NCUA's intent is to remove unnecessary regulatory burdens for credit unions that undertake business lending.

"Our member business lending rule is up for regulatory review again this year," Johnson pointed out. "We are exploring further changes to empower credit unions to help more of America's small businesses with their financing needs. Small business is big business."

Many of the audience members indicated that they had not yet begun member business lending. They were advised to start slowly and seek partnership opportunities. Panelists described several successful ways to forge partnerships:

- Partner with other credit unions – Credit union service organizations (CUSOs) help multiple credit unions share start-up costs, hire underwriting and servicing expertise, and build business loan volume. Loan participations help multiple credit unions share the risks as well as the rewards of business lending.

- Partner with government agencies – Credit unions that make SBA loans earn guarantees of 50%-85% on each loan. Credit unions that make agricultural business loans through Farmer Mac earn guarantees up to 90%.

- Partner with not-profit agencies – A wide variety of state and local agencies will guarantee community development and micro-enterprise loans up to 100%.

The workshop demonstrated how business lending can strengthen credit unions' bottom line. Several credit union presenters said business lending has raised their loan-to-share ratio over 90% and raised their return on assets over 2%.

"Credit unions are using business loans to diversify their membership, diversify their assets, and strengthen their safety and soundness," Matz concluded. "Most importantly, these credit unions are providing a valuable member service. For example, credit union business lenders described successful loans to help members open a child care service, start a bed and breakfast inn, and establish a taco stand. These members could not get such small business loans anywhere else."

Presentations from the workshop have been packaged onto a free CD and posted onto NCUA's website (www.ncua.gov, click PALS, then click Workshop Presentations).

Co-hosts for the free workshop included the California, Nevada, Oregon, and Washington credit union leagues, the Credit Union Association of the West, the Credit Union National Association, and the National Federation of Community Development Credit Unions.

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