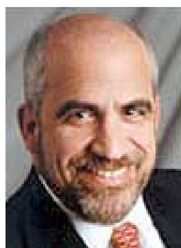
DECEMBER 2003

CUNA LENDING COUNCIL

LENDING FOCUS

AN ELECTRONIC REPORT FROM THE CUNA LENDING COUNCIL

MESSAGE FROM THE CHAIR



Joe Brancucci
Chair, CUNA
Lending Council

I am pleased to report to you for the first time as chair of the CUNA Lending Council. This organization is successful due in large part to the participation of members over nearly a decade of operation. Our growth in both numbers and range of services is testimony to the value of the CLC experience.

Before I go on, please join me in thanking Fawn Terwilliger for her excellent leadership as chair of the Council over the past two years. During the past four years, my own responsibility as a member of the executive committee has been to chair the conference committee, which creates the conference curriculum and works with speakers and with CUNA staff to execute the event.

Now my work becomes broader in scope, and I am eager to begin the journey. Our two-year agenda is both ambitious and challenging. At our annual conference in Indian Wells, California, we unveiled a plan that includes major initiatives in education, networking, leadership development, and our tenth anniversary celebration. I'll be sharing details about our plans for the next two years in future issues of *Lending Focus*.

Speaking of conferences, this year's program broke all-time records for CUNA Council gatherings. *Lending From the Member's Perspective* was replete with energy and great participant response. The sessions were relevant, networking opportunities were outstanding, and a feeling of community was palpable. In the CLC we have always tried to build a sense of community, not just conduct a conference. This is a group of professionals gathering together to learn, to share ideas, to network, and to celebrate our discipline.

All sessions were very well attended, and interest was high. As credit unions cope with how they will compete in the new economy, the lending function becomes more critical than ever. In real estate lending, auto lending, consumer lending, new players are entering the market and credit unions need to develop new ways to succeed. We're grappling with how we might create competitive products. As commodity brokers enter the market, it is not enough to compete simply on price.

Our conference topics addressed those issues and the various ways credit unions can meet our challenges. For example, building on the relationship we have with our members is one key to success in the marketplace. We heard about strategies to replace the process approach to lending with a more member-centric approach.

In conclusion, it is a high honor to serve as your chair for the next two years. I encourage each member of the CLC to feel free to contact me at any time with ideas, suggestions, and recommendations. And I hope to see more of you at next year's CLC conference. ◆

Joe Brancucci
Vice President, Chief Lending Officer
Boeing Employees Credit Union

Chair Joseph Brancucci, recently accepted the CUSO Professional of the Year Award at the 2003 National Association of Credit Union Service Organizations' (NACUSO) Fall Leadership Conference in Baltimore, Md. The award recognizes visionary leadership, challenging the status quo, teamwork, trust, empowerment, being a role model, encouraging, motivating, achievement, and results. NACUSO, founded in 1985, is a non-profit organization developed to further credit unions' ability to better serve their members with the services provided by member credit union service organizations.

In This Issue

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CLC CONFERENCE REVIEW

From CUNA's News Now November 10th:

Brancucci to Chair CUNA Lending Council

MADISON, Wis. (11/10/03)—Joseph Brancucci, vice president of lending and chief lending officer at Boeing Employees CU, Tukwila, Wash., is the new chair of the CUNA Lending Council.

Brancucci replaces Fawn Terwilliger, vice president of credit services for Arizona State Savings and CU, Phoenix, who stepped down from a two-year term.

Members of the Lending Council recently elected incumbent Marcella Wevley, director of retail lending and development for USA FCU, San Diego, and Allan Stevens, vice president and senior lending officer of Franklin Mint FCU, Broomall, Pa., to the CUNA Lending Council executive committee, each for a one-year term.

The appointments took effect at last week's CUNA Lending Council Conference in Indian Wells, Calif.

Other executive committee members are:

Vice chair: Chris Oldag, senior vice president of lending, Patelco CU, San Francisco;

Secretary/treasurer: Phillip Greer, senior vice president of loan administration, State Employees CU, Raleigh, N.C.;

Herb Behrens, director of mortgage lending, Baxter CU, Vernon Hills, Ill.;

Sharon Gaugler, vice president of lending, Austin Area Teachers FCU, Austin, Texas; and

Linda Winkfein, vice president of lending services, Texas CU League. ◆

Excellence in Lending Awards

Four credit unions were recognized with the CUNA Mutual Group's Excellence in Lending Awards at the CUNA Lending Council 2003 conference.

H-E-B FCU, San Antonio, TX and John Deere Community CU, Waterloo, IA were winners in the Consumer Lending category. Mayo Employees CU, Rochester, MN and United Nations FCU, New York, NY won in the Mortgage Lending category. Credit Union Magazine features the awards in their December issue. Click here to read the article.

And, following tradition, the first Lending Council White Paper of 2004 will review the 2003 Excellence in Lending award winners and offer the details of how and why they won.

LOOKING AHEAD

Best Targets for Loans Differ from Loan Type to Loan Type

Jon Haller
CUNA & Affiliates

Although remote-banking services get a great deal of the attention these days – not only from the trade media, but also, quite possibly, at your own credit union – the fact remains that the biggest impact to your credit union's bottom line will, for the foreseeable future, come from your loan offerings.

Of course, this fact has not been lost on the competition in your local area, nor on the country's online-only and click-and-mortar banks. But more and more non-traditional entities are entering the chase for your members' loan business, with big-time players, such as Target Corporation, Nordstrom, General Motors, and the AAA auto club just to name a few, looking to leverage their multiple-million-dollar marketing budgets and strong brand recognition and loyalty to take a sizeable bite from the consumer (and your member) financial services pie.

Given the bottom-line impact of loans and rising competition, it comes as no surprise that more of credit unions' marketing funds (37%) get dedicated to loans than to any other single product line or objective, such as attracting new members, according to CUNA's *2002 National Member Survey Report.*

And while younger to middle-aged members with moderate- to high household incomes tend to be the strongest target markets for most loan types, there are some exceptions to this pattern, as noted in the target-marketing

matrix, below. For example, nationally, the lifecycle segment comprised of members 55 and older (most likely those 55 to 64) with household incomes of $50,000 to $100,000, along with high-income members (regardless of their age), would be the best promotional targets for home equity/2nd mortgage/HELOC offerings.

The underlying premise for the target-marketing matrix is this: The most efficient way to identify potential users of a particular service is to identify the characteristics of those members who are currently using that service somewhere, then finding others in your membership who are "just like them."

Then, by using your MCIF (Marketing Customer Information File) or your membership database, you can assemble your mailing list using only the "highest-potential" lifecycle segments for your particular direct-mail promotion.

Use this matrix to help guide your target-marketing strategies. When conducting your next member survey, seek out vendors capable of developing a target-marketing matrix based on your own members' financial behaviors, as your individual credit union's target-marketing index scores could differ—somewhat or even more so—from the nationally-based scores provided in this article.

Target-Marketing Index Scores* For Loan Services

Age/ Income Group	Visa/ MasterCard credit cards	1st mortgage loans	Home eq./ 2nd mtg. /HELOCs	Auto loans or leases	Personal loans	Student loans
All adults/$100,000 or more	111	127	121	105	85	89
18-34/$50,000-$100,000	103	130	103	136	110	172
35-54/$50,000-$100,000	108	130	106	113	105	111
55 and older/$50,000-$100,000	100	87	129	84	95	39
18-34/$25,000-$50,000	99	88	53	142	93	172
35-54/$25,000-$50,000	108	108	91	105	103	106
55 and older/$25,000-$50,000	103	45	68	67	93	61
All adults/Less than $25,000	72	68	97	84	103	100

**Index Score of exactly 100 = no more than "average" likelihood of using that service.*
Less than 100 = less likely than "average" to use that service.
Greater than 100 = more likely than "average" to use that service.

NOTE: The higher (over 100) the Index Score is, the more strongly we recommend that that particular age/income group be included in the promotional mailing for that service.

In addition, use your survey to measure your credit union's loan market shares and examine members' reasons for taking their loan business elsewhere. And monitor their satisfaction with your loan rates, approval time, and loan-staff courtesy, and knowledge of loan policies/procedures. Then make adjustments in any areas that are deemed in need of shoring up and/or that have experienced drops since your previous survey. ◆

By Jon Haller
Director of Market Research
CUNA & Affiliates

Research Review #16
To read other Research Reviews, go to
http://advice.cuna.org/research_review/research_review_16.html

Young Adult Members: Top Lending Prospects Rate Attention

Young members comprise the largest potential market for financial services ever, reaching financial independence in numbers larger than even the baby boom generation. And their spending power is formidable.

Yet credit unions in general have not recognized and taken advantage of this tremendous market opportunity. The **Filene Research Institute** brought together research experts and credit union practitioners in a workshop designed to develop workable strategies to attract consumers in the birth-to-30 age group. The discussions centered on the size and scope of the youth market; research findings from a variety of sources; demographic and lifestyle characteristics of potential young members; and financial product use by these age groups. Those discussions are presented in a new Filene report, *Reaching the Under-30 Market.*

Younger age groups have relatively small representation among credit union membership. Credit unions invest surprisingly small amounts in marketing to younger age groups. On average, only $4,000 is devoted to youth programs, and even credit unions over $100 million in assets spend only $10,500 per year on these programs. Without the borrowing power of younger members, the average credit union stands to lose an estimated $14 million in loans over the next 10 years.

Workshop participants offered a number of strategies credit unions can undertake to maximize their penetration of the youth market and ensure continued relationship building with young consumers. Among their recommendations:

- Credit union boards must make a commitment to invest resources, staff and dollars in serving the under-30 market as a part of the credit union's strategic plan.
- Management should develop tracking systems to monitor progress toward attracting and retaining younger members.
- Products and services developed to attract members at an early age should be viewed as a means for establishing lifetime relationships with members.
- Parents and grandparents should be encouraged to participate in programs that will build the financial future of their children.
- Credit unions should increase their member education outreach programs as a method of creating interest in the credit union. ◆

For more information on Reaching the Under-30 Market, see www.filene.org.

RATES, RISK, & REGULATION

Greenspan Hints at End to Low Rates

Federal Reserve Chairman Alan Greenspan recently offered a hint that the era of rock-bottom interest rates may be slowly drawing to a close. Acknowledging for the first time that the economy has grown at a blistering pace in recent months, Greenspan gave an optimistic assessment of the prospects for strong growth and a gradual reduction in unemployment.

The Fed chairman also departed slightly from the central bank's recent open-ended commitment to retain a policy of cheap money "for a considerable period."

In a speech delivered to the Securities Industry Association, Greenspan said that the Fed was still more worried that inflation would be too low rather than too high and that the Fed could afford to be patient before changing monetary policy. But he also cautioned, "no central bank can ever afford to be less than vigilant about the prospects for inflation."

The comments left little doubt that Greenspan wants to keep interest rates low for at least the next several months. But they also offered a guarded hint that the Fed's open-ended commitment to easy money may be waning. The remarks were his first since the Fed decided on Oct. 28 to keep the federal funds rate for overnight loans between banks at 1 percent, the lowest level in 45 years. They were also his first comments since the government reported that the economy surged at an annual rate of 7.2 percent in the third quarter, the fastest pace in nearly two decades.

The combination of rapid growth and exceptionally easy money has increased expectations among investors that the Fed will tighten the reins some time next year to keep the economy from overheating.

Greenspan noted that per-hour output in the non-farm business sector had climbed at an annual rate of 5 percent for the last two years. In the second and third quarters of 2003, he said, per-hour output climbed at a rate of 7.5 percent. "If businesses are to spend and hire more vigorously, they will need to be convinced that economic growth can be sustained beyond the short run," Greenspan said. "One prominent concern is that, if the labor market remains weak, household confidence will suffer." ◆

The Wisdom of Taking on More Risk

Bill Hampel
Credit Union National Association, Inc.

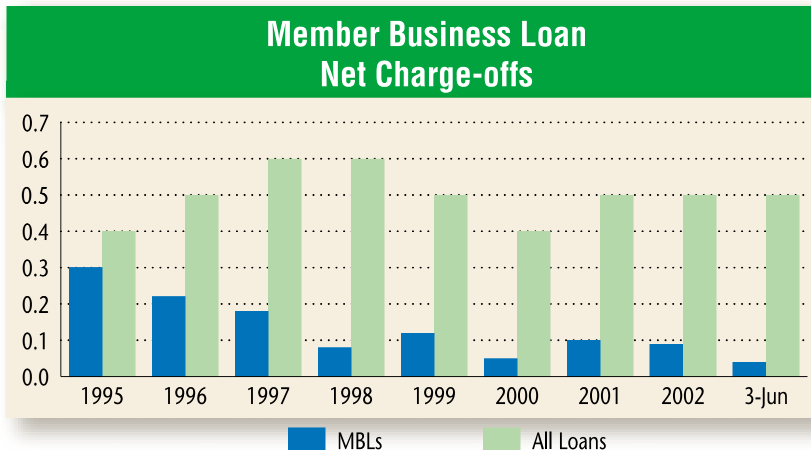
We all know that business lending is more risky than consumer or mortgage lending. Consumer loans tend to be small, and research shows they are not very sensitive to business cycle fluctuations. Mortgage loans have interest rate risk, but the collateral and the importance to the borrower of keeping a place to live keep defaults low.

Business loans, particularly small business loans, have a reputation for having more risk. They tend to be much larger than a typical consumer loan, so just a few of them going bad can have a significant effect on delinquency and charge-offs to many portfolios. Also, particularly for new businesses, there are alarming statistics about high initial failure rates.

Urban Legend

An often-quoted result is that 9 out of 10 new businesses close in their first year. Actually, that's an urban legend – it's false. A recent study by an economist at the Small Business Administration found that only about a third of new businesses closed because they were considered unsuccessful (failures). The rest stayed in operation or closed without a loss because the owner sold the business, sought employment elsewhere, retired, or decided to start another business. Half of new businesses were still in operation after four years. Nevertheless, the level and volatility of business failures is much greater than the size and volatility of the unemployment rate. So, we should expect more risk in business loans than in consumer loans. Right?

Well, maybe. Bank loan loss rates are more volatile than those of credit unions and they rise substantially during recessions. That's the result of the much greater prevalence of commercial and industrial loans on a bank's books. But that doesn't mean that credit unions can expect higher loan losses on business compared to other loans. In fact, at credit unions so far, business loan charge-offs have actually been less than non-business charge-offs as shown in the accompanying chart.



Back in 1995, net charge-offs on business and all loans at credit unions were about the same, at 0.4% of outstanding loans. Since then, the overall charge-off rate has risen to between 0.5% and 0.6%, while the loss rate on member business loans has hovered around 0.1% of outstandings. That's pretty close to zero.

So what's going on here? What's so special about credit unions and their business borrowers that losses are so low?

Low losses for business loans

The low loan losses at credit unions are the result of a several factors. First, credit unions, by their cooperative nature, tend to be more risk averse than other firms. Without the lure of stock options, credit union policy makers have lower incentive to take on new risks than do bank managers. As a result, credit unions are expanding into business lending in a measured way. There's actually quite a bit of wisdom in that. And credit union underwriting standards are no doubt stricter than at other lenders, both for internal and regulatory reasons.

Because the business lending portfolio has historically been small in credit unions, examiners have not until recently been familiar and comfortable with business lending. This has sent negative signals to credit unions offering business loans. But, there is strong evidence that regulators have over the past several years become much more informed about and comfortable with business lending.

In the future, as credit unions gain more experience with making and managing a business loan portfolio, loss rates on business loans are likely to rise to levels at least comparable to other loan loss rates. In the meantime, it's probably wise to enter the business with caution, but one can err on the side of too much caution. ◆

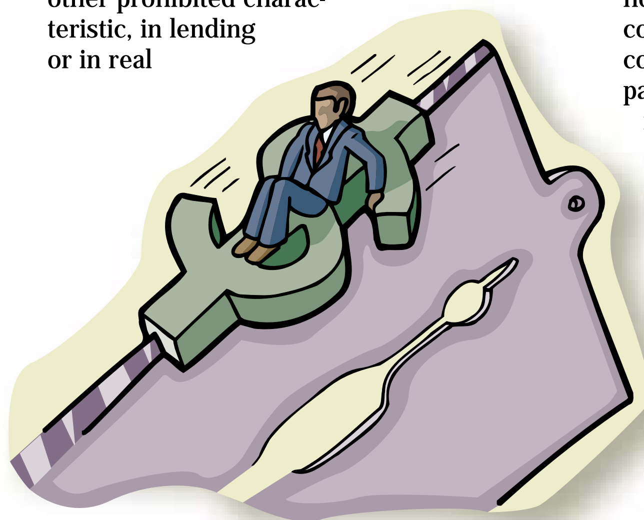
Bill Hampel
Senior vice president & chief economist
Research & policy analysis
Credit Union National Association

From an article that appears in the December issue of Credit Union Business Services Solutions. Click here for your free copy: http://www.cuna.org/download/mbs_solutions_06.pdf

Cutting Risks Built into Third-Party Lending Relationships

The lenders' liability for the conduct of third parties issue has expanded from its initial focus on mortgage brokers to include many firms that do not originate loans, according to Joseph Barloon, Matthew Michael, and Anand Raman writing in CUNA's *The Point for Credit Union Research and Advice.*

The nation's principal "fair-lending" statutory framework consists of the Fair Housing Act and the Equal Credit Opportunity Act. Both statutes make it unlawful to discriminate on the basis of race, sex, or other prohibited characteristic, in lending or in real estate-related transactions. However, the basic notion of fair lending has been supplemented by recent scrutiny of subprime lending practices. Thus the universe of fair-lending statutes has been expanded to include statutes formerly thought of as aimed at consumer protection. In addition, increased enforcement activities by state attorneys general and the prevalence of class actions alleging violations of state statutes make it necessary for lenders to be familiar with state consumer protection laws.



There is also an increasing emphasis on holding banks and other lenders liable for the conduct of third parties. This means that a compliance officer should verify that key third parties with whom the lender conducts business are also in compliance.

Traditionally, a party could be held liable for the unlawful conduct of another only if that second party could be said to have acted as the "agent" for that first party. Lenders risk being held liable if one of their own loan officers discriminates. Over the past several years, however, some courts have held that a party can be held liable for the other party's discrimination even if the second party was an independent contractor. ◆

From the Point for Credit Union Research and Advice

Soldiers' & Sailors' Relief Bill Amendments Proposed

Representative James Gibbons (R-Nev.) has introduced legislation (H.R. 3357) that would amend the Soldiers' and Sailors' Civil Relief Act of 1940 to allow active duty military personnel to terminate certain consumer contracts, including real estate residential purchase contracts and motor vehicle leases. The bill could impact credit unions that offer auto leases and mortgage loans.

The legislation would permit members of the Armed Services to terminate consumer contracts (such as cell phone service, cable or satellite TV, or Internet service), residential real estate purchase contracts, and auto leases if the member is called to report for active duty or has received orders for a permanent change of duty station outside of the continental United States.

In order to qualify for the protection, the service member would have to be called to duty or deployed with a military unit overseas for a period of not less than 90 days. Service members invoking their rights would be required to notify creditors in writing of their intention to terminate a contract. In the case of auto leases, they would be required to return the vehicle not later than 10 days after the notice was delivered.

Creditors would have the option of applying to a court for relief, and in some cases, the service member's obligation could be modified rather than completely terminated. The bill has been referred to the House Veterans Affairs Committee. ◆

Treasury Looks at CU Risk-Based Capital

Assistant Treasury Secretary for Financial Institutions, Wayne Abernathy, said he is looking at possible changes to credit union capital standards and whether they should become risk-based in his remarks at the Consumer Federation of America's Financial Services Conference in Washington, D.C. in early December.

Abernathy noted that credit unions apply the same capital standards to all assets regardless of risk associated with them. He asked whether less capital should be put up against more secure loans.

"My guess is this would free up this capital and allow credit unions to grow," said Abernathy. "We're looking at and considering this and we want your feedback," he told the conference attendees.

CUNA staff have been meeting with Abernathy over the past few months to encourage support for improvements along the lines of his remarks, particularly in relation to Prompt Corrective Action.

The recently introduced Credit Union Regulatory Improvement Act (CURIA) contains a provision that improves net worth requirements.

"We met as recently as last week and discussed this very provision after it was introduced as part of CURIA," said Gary Kohn, CUNA's vice president of legislative affairs and senior legislative counsel. "We are very pleased that the results of our meetings have led to serious consideration of the issue at Treasury." ◆

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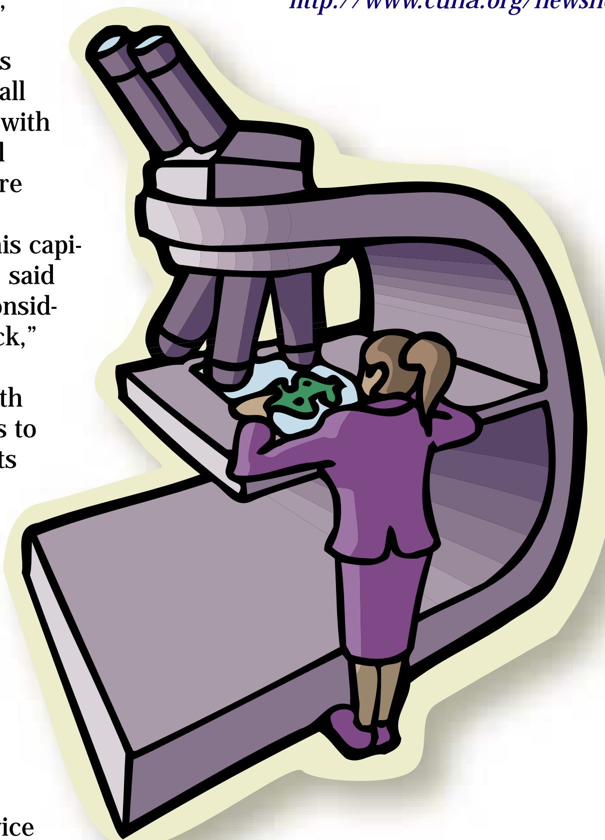


SMALL BUSINESS LENDING

Robust Outlook for 2004

The small business sector should benefit from many positive economic forces in 2004 including rising consumer and business spending, low interest rates, a weak dollar, cost cutting, and less business uncertainty. Business profits should increase next year as these forces combine to increase revenues faster than costs.

Business revenues

Let's first take a look at projections for business revenue in 2004. Since revenue equals the cost of output multiplied by total output, we need to analyze both price and output trends. First output. Both consumer and business demand for output is forecast to be robust next year. Recent tax cuts and low interest rates jump started consumer and business spending in the last half of 2003. This should continue into 2004. With hopes for a rebound in consumer confidence and consumer spending growing, increased business revenue will surely follow.

Low inventory levels will also lead to increased output. If demand continues to rise, businesses will be forced to step up production. Falling inventories today imply greater production and investment tomorrow. We've already begun to see double-digit growth in equipment and software spending.

The business sectors currently experiencing the fastest growth include retail trade, education, health service, professional/business services, restaurants, and leisure and hospitality. Within the business/professional service category, net growth is strong in legal, accounting, technical consulting, and computer related services.

These fast growing sectors are also experiencing the greatest pricing power. Pricing power is the ability to raise prices without loosing market share. This will push revenues up along with profits. Some sectors of the economy, however, currently have very little pricing power. The manufacturing sector has little to no pricing power due to excess capacity.

The price of many manufacturing products has actually declined over the last few years, to the detriment of manufacturing profits. The good news on the pricing front is the falling value of the dollar in the foreign exchange market, which makes U.S. products more price-competitive against foreign products. This will allow U.S. manufacturers to raise prices and boost revenues.

Business costs

Turning now to the cost component of the profit equation. The focus will be on wage and finance costs, for many firms two of the largest components of total cost.

First, financing costs: Two factors have lowered debt service for many business borrowers. 1) The Federal Reserve's expansionary monetary policy has lowered interest rates to 45-year lows, providing many firms cheap capital. 2) Many lenders realize that firms' finances are in much better shape than a year ago and have reduced the risk premium on business lending. They are also sending the signal that they are ready and willing to lend. Both these factors

have provided business borrowers debt service relief and therefore lowered their costs.

With respect to employment costs, wage growth remains below historical standards. During the first half of 2003, wages rose only 2.9% from a year earlier, reflecting a weakening in employees' wage bargaining situation in an extremely loose labor market.

Although businesses are doing a good job holding the line on wage costs, benefit costs are getting out of hand and continue to outpace wage cost growth. Skyrocketing medical and insurance costs are emerging as a serious detriment to business profitability. Benefit costs advanced 6.5% over the last year, due largely to accelerating health insurance costs. This is severely negating the gains many employers might have had from controlling wage growth over the past few quarters.

Fortunately for many firms, continued strong labor productivity growth will help moderate labor costs and increase profitability in 2004. Productivity growth rose 4.7% in 2003, helping to offset some of the increase in benefit costs. Productivity gains indicate that labor is increasingly becoming a better value for the money, which will lead to improved competitiveness of U.S. firms in the world market.

Rising business profits

The fundamentals of the U.S. economy suggest that a self-sustaining recovery is underway. This recovery should bolster consumer demand for business products and services and boost revenues. One of the biggest challenges facing businesses in 2004 will be to manage their health insurance costs. If this can be done, business profits should rebound nicely next year. ◆

Steven Rick
Senior Economist
Economics & Statistics
Credit Union National Association, Inc.
From CU Business Services Solutions

CU Business Loans Set to Go in Missouri, Illinois

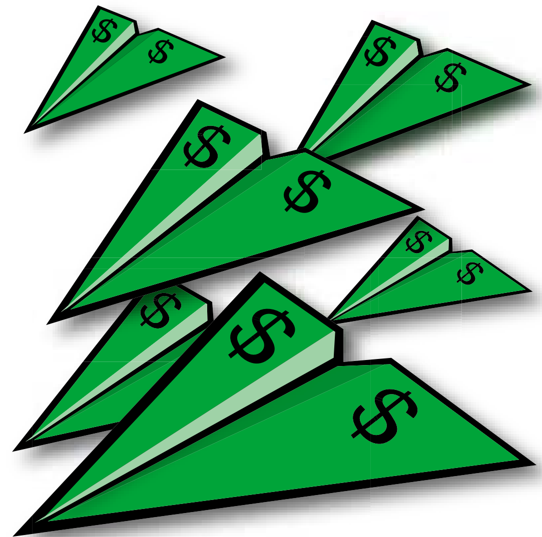
Credit unions in Missouri and Illinois are rolling out business loans, now that NCUA has ruled that qualifying credit unions can make unsecured loans of up to $100,000 to eligible businesses, according to the St. Louis Post-Dispatch.

"Missouri is one of the seven states whose credit union business loan programs has prompted the national board to consider changing the rules for everybody," says the article. Missouri's state-chartered credit unions have been permitted to make certain business loans since 2001.

Anheuser-Busch Employees' CU, St. Louis, is rolling out a complete small-business services package this month. The credit union already makes smaller loans, but the new program will be for loans over $50,000 according to Pier Alsup, senior vice president of marketing. The credit union recently qualified for a state program that expands membership to a low-income area. John P. Smith, director of the Division of CUs in the Missouri Department of Economic Development, says this is unique because the credit union will go into an area that has been left without a bank and expand into business loans there.

NCUA Board Member Deborah Matz says that both state and national programs require a lending officer with business-lending experience to underwrite the loans and a business plan.

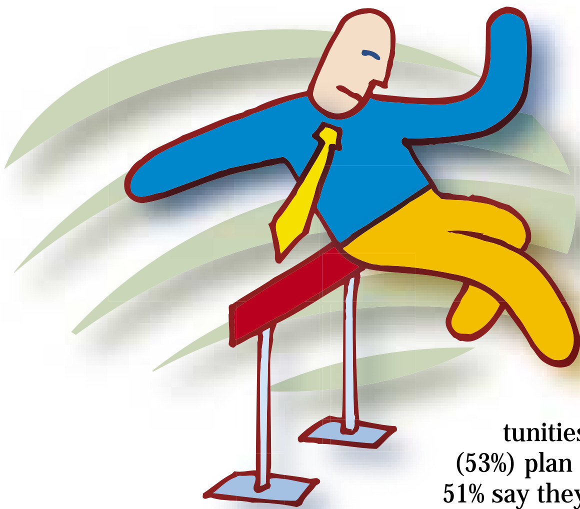
In Illinois, business loans make up 17% of the loan portfolio of Funeral Service CU, Springfield, the greatest percentage of business loans of Illinois credit unions. Its $1.6 million in loans, as of June 30, are for commercial vehicles such as hearses and limousines, according to Paul Dixon, president. Having a good source of credit for their vehicles was the main reason funeral directors founded the credit union in 1983, Dixon says. ◆



Small Business Owners Talk About Their Challenges

While 78% of industrial small businesses are optimistic about growing over the next 12 months, they are concerned about effectively managing their growth. Sixty-three percent of respondents to a survey by Thomas Regional say that healthcare coverage is their biggest challenge. Many agree they need assistance with marketing and financial services.

Of the nearly 2,500 owners of industrial small businesses surveyed nationwide, nearly half (49%) specifically state they need help with marketing products and services, 38% need help selling their products and services over the Internet, and 29% need help obtaining loans.



Although faced with significant growing pains, these industrial small businesses are responding to growth opportunities. More than half (53%) plan to increase staff, 51% say they'll buy new or additional equipment, and 26% will either move to a larger facility or open a new one. Business owners are so focused on growth opportunities and managing growth that one out of five has not given a thought to succession or retirement planning.

Half of the businesses surveyed say they started within the past 11 years and 78% used personal sources to obtain the capital needed to start or purchase their businesses. Only 16% relied on loans from financial institutions.

Nearly one-third (29%) say they need help in obtaining loans and 44% say access to capital is a challenge. While 62% initially sought advice from a variety of governmental agencies, 53% plan to turn to family and colleagues for advice in growing their businesses.

"Many entrepreneurs contact the Small business Administration (SBA) only when they are starting their own businesses, overlooking the things we can do for them after they've got their companies off the ground," says SBA Administrator Hector V. Barreto. "The SBA has a wealth of services that help small businesses manage their growth and obtain new loans and government contracts, as well as provide sound counsel on such issues as healthcare coverage and retirement planning."

Although the vast majority of industrial small businesses have a positive outlook for the next year, nearly half (44%) recognize that expanding into new markets is a serious challenge. Forty-five percent of respondents say expanding into new geographic markets is a key strategy for growing their businesses.

Small businesses are now realizing the strategic benefits of the Internet and how it allows them to enter new markets. This coincides with the fact that while nearly half (49%) admit they do not have a Web site, 42% of those businesses intend to develop one this year. And 36% of respondents plan to sell their products and services online. ◆

Excerpted from
The Point for
Credit Union Research and Advice

Business Loans Increase & Diversify Lending Portfolios

Member business loans (MBLs) are a dependable vehicle to increase and diversify credit union lending portfolios, according to Jean Faenza, EVP Telesis Community Credit Union, Chatsworth, CA. Six years ago, Telesis had a 50% loan-to-share ratio; today it's 94%.

Telesis started its MBL program in 1992 after many members became entrepreneurs. At the beginning, training was a cultural shock. "We had to go out and hire staff with expertise. The NCUA requires two years of experience. I say you need two plus two plus two," said Faenza.

Since its inception, the Telesis MBL program has had no delinquencies or foreclosures. Telesis offers a full range of business services including business online banking, 24-hour account access, free bill payer, and a CheckDirect Visa check card. "Members are looking for a partner for the future," says Faenza. "They want advice. You don't have to offer every service, but you need to offer referrals for the services you don't have."

MBLs can bring a host of benefits, such as meeting member needs as well as developing a primary financial institution relationship with

existing members. MBLs can also attract new members and expand the credit union's community image.

Some 15,000-20,000 small businesses switch financial institutions each year because of lack of personal service or key contact person, and the financial institution makes no effort to retain their business, said Faenza. Since credit unions are recognized for their quality service, they have an opportunity to attract these dissatisfied businesses.

Telesis offers business money management accounts with competitive/tiered interest rates with no service fees with a minimum balance. A minimum $10,000 balance is needed to earn dividends. Faenza recommends that credit unions pay close attention to pricing by surveying the competition, especially commercial banks. ◆

Resources:
http://www.cuna.org/compliance/member/eguide/eguide_sbaloans_sum.html for Small Business Administration Loans
http://www.cuna.org/compliance/member/eguide/eguide_mbl_sum.html for member Business loans

WELCOME NEW MEMBERS

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National Accounts Director
Charlie Mac LLC
Lenexa, KS

Laura Y. DeHabermann
VP—Lending
Bossier FCU
Bossier City, LA

Lori Ann Downing
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