



# **NASCUS Member Business Lending Program**

**June, 2017**

# Agenda

- **A Training Session To Discuss Member Business Lending Underwriting Issues**
- **Discuss the Current Fiscal Status of The Credit Union Industry**
- **NCUA Statistics on Credit Unions**
- **Why Will Strong MBS Programs be Strategically Important to Credit Unions Going Forward**

# Agenda

- **What Should a Business Financial Analysis Process Include?**
- **Transitioning Business Financial Analysis into Business Credit Analysis**
- **What Makes a Small Business Credit Worthy?**

# Agenda

- **Identifying and Quantifying the Primary Source of Repayment**
- **Identifying and Quantifying the Secondary Source of Repayment**
- **Do We Still Have a Tertiary Source of Repayment?**

# Agenda

- **Discuss Changes in the NCUA Regulations for MBLs starting in 2017**
- **What Impact will the Regulation Changes have on the way MBS is Organized and Managed?**
- **What does the NCUA expect from the Board of Directors regarding MBS/MBL going Forward?**

# Federally Insured Credit Unions

Year	Federally Chartered	State Chartered	Total
2011	4,447	2,647	7,094
2012	4,272	2,547	6,819
2013	4,105	2,449	6,554
2014	3,927	2,346	6,273
2015	3,764	2,257	6,021
2016	3,608	2,177	5,785

# Federally Insured Credit Unions

- **The total number of Federally Insured/Federally Chartered CUs has declined by 839 CUs or 18.9% since 2011**
- **The total number of Federally Insured/State Chartered CUs has declined by 470 CUs or over 17.8% since 2011**

# Privately Insured Credit Unions

- **Privately Insured CUs reside in nine (9) States**
- **There are a total of 122 CUs that are privately insured**
- **Collectively they have \$14.9 Billion in Total Assets and 1.26 Million Members**



# Privately Insured Credit Unions

State	# of Credit Unions	Total Assets	Total Members
Alabama	2	\$294M	44,949
California	12	\$4.40B	236,423
Idaho	7	\$186M	20,924
Illinois	21	\$3.21B	308,395
Indiana	15	\$2.50B	159,003

# Privately Insured Credit Unions

State	# of Credit Unions	Total Assets	Total Members
Nevada	7	\$2.26B	143,189
Maryland	2	\$65M	7,523
Ohio	52	\$2.91B	367,838
Texas	4	\$618M	52,807
<b>Totals</b>	<b>122</b>	<b>\$16.44B</b>	<b>1,341,051</b>

# Privately Insured Credit Unions

State	# of Credit Unions	# with MBLs	Total MBLs
Alabama	2	2	\$15.2M
California	12	8	\$548.8M
Idaho	7	3	\$23.3M
Illinois	21	7	\$34.5M
Indiana	15	8	\$1.12 B

# Privately Insured Credit Unions

State	# of Credit Unions	# with MBLs	Total MBLs
Nevada	7	5	\$109M
Maryland	2	0	\$0
Ohio	52	21	\$122M
Texas	4	3	\$50.7M
<b>Totals</b>	<b>122</b>	<b>57</b>	<b>\$2.02B</b>

# All Insured Credit Unions

<b>Asset Size</b>	<b>&lt; \$20 Million</b>	<b>\$20-\$100 Million</b>	<b>\$100-\$500 Million</b>	<b>&gt; \$500 Million</b>
<b># of CUs</b>	<b>2,479</b>	<b>1,842</b>	<b>1,074</b>	<b>511</b>
<b># of Members</b>	<b>3.02 M</b>	<b>10.18 M</b>	<b>23.24 M</b>	<b>71.78 M</b>
<b>Total Assets</b>	<b>\$18 B</b>	<b>\$88 B</b>	<b>\$239 B</b>	<b>\$964 B</b>

# All Insured Credit Unions

<b>Asset Size</b>	<b>&lt; \$20 Million</b>	<b>\$20-\$100 Million</b>	<b>\$100-\$500 Million</b>	<b>&gt; \$500 Million</b>
<b>% of CUs</b>	<b>41.9%</b>	<b>31.2%</b>	<b>18.2%</b>	<b>8.7%</b>
<b>% of Members</b>	<b>2.8%</b>	<b>9.4%</b>	<b>21.5%</b>	<b>66.3%</b>
<b>% of Total Assets</b>	<b>1.4%</b>	<b>6.7%</b>	<b>18.3%</b>	<b>73.6%</b>

# All Insured Credit Unions

- **Number of Credit Unions:**
  - **There Was a Total of 5,906 Insured Credit Unions as of 12/31/16**
    - ❖ **A total of 4,321 or 73.2% had Total Assets of \$100 Million or Less**
    - ❖ **A total of 5,395 or 91.4% had Total Assets of \$500 Million or Less**
    - ❖ **A total of 511 or 8.6% had Total Assets of \$500 Million or More**

# All Insured Credit Unions

- **Total Assets:**

- **All Insured Credit Unions had Total Assets of \$1.31 Trillion as of 12/31/16**

- ❖ **CUs with Total Assets of \$100 Million or Less had \$106 Billion – 8.1%**
- ❖ **CUs with Total Assets of less than \$500 Million had \$345 Billion – 26.4%**
- ❖ **CUs with Total Assets of \$500 Million or More had \$964 Billion – 73.6%**



# All Insured Credit Unions

- **Number of Credit Union Members:**
  - **All Insured Credit Unions had 108.23 Million Members as of 12/31/16**
    - ❖ **CUs with Total Assets of \$100 Million or Less had 13.2 Million Members – 12.2%**
    - ❖ **CUs with Total Assets of \$500 Million or Less had 35.5 Million Members – 33.7%**
    - ❖ **CUs with Total Assets of \$500 Million or More had 71.8 Million Members – 66.3%**

# Federally Insured Credit Unions

## KPIs

Asset Size	< \$10 Million	\$10-\$50 Million	\$50-\$100 Million	\$100-\$500 Million	\$500 Mil - \$1Billion	> \$1 Billion
ROAA	0.04%	0.28%	0.40%	0.55%	0.68%	0.91%
Net Worth	15.05%	12.33%	11.46%	10.94%	11.10%	10.70%
Loan/Share	57.5%	57.4%	63.0%	72.4%	77.8%	81.9%
NIM	3.18%	2.90%	2.95%	3.00%	2.95%	2.72%
Delinquency Rate	1.89%	1.24%	1.06%	0.93%	0.75%	0.75%
Cost of Funds	0.21%	0.23%	0.28%	0.35%	0.40%	0.50%

# Key Performance Indicators

- **Return on Average Assets Ratio:**
  - **ROAA averaged significantly less than half of 1.00% for CUs with Total Assets less than \$100 Million**
  - **The overall average ROAA for CUs with Total Assets of less than \$500 Million was less than half of 1.00%**

# Key Performance Indicators

- **Net Worth Ratio**

- **Credit Unions with less than \$100 Million in Total Assets met Well-Capitalized Standards**
- **The Average Net Worth Ratio in 2016 was 10.9% and 98% of all Credit Unions had a Net Worth Ratio of over 7.0%**

# Key Performance Indicators

- **Net Interest Margin**

- **Net Interest Margin has Averaged below 3.00% since 2012**
- **The Average NIM in 2016 was 2.87%**
- **The Average NIM for Credit Unions with Total Assets of More than \$1.0 Billion in 2016 was 2.72%**

# Key Performance Indicators

- **Efficiency Ratio**

**Non-Interest Expenses**

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**Net Interest Income + Non-Interest Income**

# Key Performance Indicators

- **Efficiency Ratio – Credit Unions**
  - **The Average Efficiency Ratio for Credit Unions as of 12/31/16 was 79.9%**
  - **For Every Dollar of Revenue Generated, there was \$0.799 in Non-Interest Expenses**
  - **Net Interest Income made up over 75% of the Overall Revenue Pool**

# Key Performance Indicators

- **Only Four Ways to Increase Profitability**
  - **Reduce Fixed Costs – Dollar for Dollar Trade-off**
  - **Reduce the Variable Cost % - Gain Contribution Margin**
  - **Increase Revenue Volume – On Same Fixed Cost Base**
  - **Increase Prices – Expand Gross Profit Margins**



# Key Performance Indicators

- **Efficiency Ratio – How do you get More Efficient?**
  - **Reduce the Non-Interest Expenses**
    - ❖ **Compensation/Benefits - 60%+**
    - ❖ **Facilities and IT Expenses – 20%+**
    - ❖ **Other Operating Expenses – 20% or Less**

# Key Performance Indicators

- **Efficiency Ratio – How do you get More Efficient?**
  - **Increase Net Interest Income/Non Interest Income**
    - ❖ **Net Interest Income - 75%+ of Current Revenue**
      - ✓ **Increase/Expand Volume and/or Increase NIM**
    - ❖ **Non Interest Income – 25% or Less of Current Revenue**
      - ✓ **Increase/Expand Fee Income**

# Credit Union Performance Issues

- **Significant Industry Consolidation**
- **Net Interest Rate Margins have been Declining**
- **Compliance Costs are Increasing**
- **Pressure on Efficiency and Profitability**

# Credit Union Performance Issues

- **Need a More Diversified Business Model**
- **Need to Identify Most Leveragable Business Lines**
- **Need a Proactive Sales/Service Culture**
- **Must Become a Financial Services Provider of Choice**
- **Need a Compelling Value Proposition**

# Federally Insured Credit Unions

Year	Outstanding MBL	Outstanding CRE MBL	Delinquency Rate - MBL
2011	\$37.32B	\$32.09B	3.81%
2012	\$39.62B	\$33.39B	2.17%
2013	\$43.48B	\$36.79B	1.54%
2014	\$48.74B	\$41.33B	0.86%
2015	\$54.62B	\$46.79B	1.09%
2016	\$62.43B	\$54.96B	1.58%

# Member Business Services

- **Approximately 2,267 Credit Unions are now making Member Business Loans**
  - **Represents 38.4% of all Credit Unions**
  - **Over 90.0% of Credit Unions with Total Assets in excess of \$500 Million are making Member Business Loans**
  - **Average Loan Size as of 12/31/16 was \$225,000**
  - **California – 205 Credit Unions with MBLs - \$9.0 Billion/Average Loan Size - \$343,823**

# Member Business Services

- **The Dollar Size of the Overall MBL Portfolio increased by \$25.1 Billion or 67.3% since 2011**
- **Business Loans made to finance Commercial Real Estate or secured by Commercial Real Estate represented \$54.9 Billion of the Total MBL Portfolio or 88.0%**
- **The MBL Delinquency Rate declined by 295 Basis Points between 2011 and 2014 to a low of 0.86%. Since 2014 the Rate has increased by 72 Basis Points to 1.58%**

# Member Business Services

- **The Overall MBL Portfolio as of 12/31/16 represented 4.8% of Credit Union Total Assets**
- **Fee Income from Business Services is Just Starting to be a Significant Revenue Component**
- **Inexpensive Business Deposits are Available that Will Enable Lower Loan Funding Costs and Increased Net Interest Rate Margins**



# Member Business Services

- **Why MBS is Important for Credit Unions**
  - **Average Loan Size is Significantly Larger (7-10x)**
  - **Can Produce Higher Net Interest Margins**
  - **Can Produce Significant Annuitized Fee Income**
  - **Large Number of Business Owners Likely Already CU Members for Consumer Needs**

# Member Business Services

- **Current Regulations limit the Size of the MBL Portfolio to 1.75 times Net Worth**
- **Low Income Designation – No MBL Cap**
- **Business Loans linked to Government Guaranteed programs do not count against the Cap**
- **Over 29 Million Small Businesses in the Country**

# Member Business Services

- **Decide What You Want in Your MBL Portfolio**
- **Have the Required Underwriting Expertise in Place**
- **Have the Ability to Document, Board and Monitor MBLs**
- **Create Organizational Separation between Loan Production and Loan Administration Efforts**

# Member Business Services

- **Key Elements in a Sustainable MBS Program**
  - **Sound Underwriting Process/Staff Skills**
  - **Sound Credit Administration Process/Staff Skills**
  - **Holistic Financial Services Focus/Staff Skills**
  - **Hunt for Who You Want – Compelling Value Proposition**

# Member Business Lending

- **Sound Underwriting Process**
  - **Capacity To Repay Meets Debt Service Coverage Policy**
  - **Viable Secondary Source of Repayment Identified**
  - **Loan to Value Analysis Meets Policy Requirements**
  - **Collateral – Value, Possession, And Conversion Plans**

# Member Business Lending

- **Sound Underwriting Process**
  - **Loan Structure Matches the Loan Purpose**
  - **Priced Adequately For The Risk**
  - **Confident Understanding Of The Business Model**
  - **Primary Source Of Repayment – Accurately Calculated**

# Member Business Lending

- **Sound Underwriting Process**
  - **If The Cash Don't Flow, The Loan Don't Go!**
  - **Must Measure Cash Flow Using Right Methodology**
  - **Identify Going Concern Business Risks**
  - **Prior Years Performance Will Not Pay You Back**

# Member Business Lending

- **Sound Underwriting Process**

- **Characteristics of a Good Member Business Loan**

- ❖ **Owned and Managed By Experienced People**

- ❖ **Have Timely and Accurate Financial Information**

- ❖ **Adequately Capitalized – Meet Funding Structure Policies**



# Member Business Lending

- **Sound Underwriting Process**

- **Characteristics of a Good Member Business Loan**

- ❖ **Demonstrate Economic Viability - Profitable**

- ❖ **Produce Operating Cash Flow – Meets Debt Service Coverage Policies**

- ❖ **Have the Right Asset Mix for Their Type of Business**

# Member Business Lending

- **Sound Underwriting Process**

- **Characteristics of a Good Member Business Loan**

- ❖ **Have a Viable Secondary Source of Repayment**

- ❖ **Typically Some Form of Tangible Collateral**

- ❖ **Loan to Value Ratio – Meets Underwriting Policies**

- ❖ **Location/Protection/Valuation/Possession/Conversion Plan**

# Member Business Lending

- **Sound Underwriting Process**

- **Characteristics of a Good Member Business Loan**

- ❖ **Have Reasonable Bill Paying Capacity – Pay on Time**

- ❖ **Have Cash Flow Affordable Funding Structure**

- ❖ **Good Asset Mix/Utilization – No Lazy Assets**

# Member Business Lending

- **Sound Underwriting Process**

- **Characteristics of a Good Member Business Loan**

- ❖ **Have Reasonable Financial Projections**

- ❖ **Where I've Been, Where I Am, Links to Where I am Going**

- ❖ **In a Viable Industry Sector**

- ❖ **Owner(s) Keep You Informed on a Timely Basis**

# Member Business Lending

- **Sound Underwriting Process**

- **Comprehensive Business Entity Financial Analysis:**

- ❖ **Does the Business have Adequate Bill Paying Capacity?**

- ❖ **Is the Business Entity Funding Structure Cash Flow Affordable?**

- ❖ **Is the Business Entity Operationally Profitable?**

- ❖ **Is the Business Entity Utilizing its Assets Well?**

# Member Business Lending

- **Sound Underwriting Process**

- **Comprehensive Business Entity Financial Analysis:**

- ❖ **Is the Business Entity Asset Mix in Good Physical Condition?**

- ❖ **Is the Business Entity Producing Internal Cash Flow?**

- ❖ **Does the Business Owner Produce Financial Projections?**

- ❖ **Do the Financial Projections Link Reasonably to the Past?**

# Key Financial Ratios

- **Common Sense Approach to Interpreting and Describing Financial Ratios**

**Top # - Object of the Analysis**

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**Bottom # - Subject of the Analysis**

# Key Financial Ratios

- **Describe Financial Ratios in Easy to Understand Terminology – Common Sense Dialog**

**Top # - Put \$ in Front of the Number**

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**Bottom # - Put \$ in Front of the Number**



# Key Financial Ratios

- **Common Sense Approach to Interpreting Ratios**

**Top # - \$**

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**Bottom # - Set the Bottom Number = \$1.00**

# Key Financial Ratios

- **Start with the Bottom Number**
- **“For Every Dollar of.....”**
- **The Language of Dollars and Cents/Common Sense**
- **Intentionally Make the Description of Your Financial Analysis Easy to Understand**

# Key Financial Ratios

- **Current Ratio – Measures Bill Paying Capacity**

**Current Assets**



**Current Liabilities**

# Key Financial Ratios

- **Debt to Equity Ratio – Measures Funding Structure Risks - Leverage**

**Total Liabilities**

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**Total Equity**

# Key Financial Ratios

- **Gross Profit Ratio – Measures Profitability at the Gross Profit Level**

**Total Gross Profit Dollars**

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**Total Sales Dollars**

# Key Financial Ratios

- **Pretax Profit Ratio – Measures Profitability at the Pretax Profit Level**

**Total Pretax Profit Dollars**

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**Total Sales Dollars**

# Key Financial Ratios

- **Debt Service Coverage Ratio – Measures Annual Loan Repayment Capability**

**Capacity to Repay**

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**Total Loan Principal + Interest Payments  
Due in Next 12 Months**

# Key Financial Ratios

- **Loan to Value Ratio – Measures Collateral Value Against the Loan Size**

**Business Loan Amount**

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**Collateral Value**



# Member Business Lending

- **Sound Credit Administration Process**
  - **Good Loan Documentation and Closing Process**
  - **Good Loan Boarding Process and Tracking Systems**
  - **Properly Perfected Collateral Lien Rights**
  - **Good Risk Rating System**

# Member Business Lending

- **Sound Credit Administration Process**
  - **Timely Annual Loan Review Process**
  - **Good Collateral Valuation/Appraisal Review Process**
  - **Viable Plan to Manage Problem Loans**
  - **Good File Documentation and Records Retention**
  - **Good 3<sup>rd</sup> Party Loan Review Process**

# Member Business Services

- **Holistic Business Financial Services Focus**
  - **Manage Net Interest Income From Both Sides – Pricing and Cost of Funds – Good Deposits Gathering Plan**
  - **Provide Cash Management Services**
  - **Provide Employee Benefits Services**
  - **Provide Insurance and Wealth Management Services**

# Member Business Services

- **Your Compelling MBS Value Proposition**
  - **Why Would A Business Owner Choose Us?**
  - **Set Up on A Win/Win Basis**
  - **Help Business Owners Build Value in Their Business**
  - **Built on a Cost/Benefit Basis – Easy to Measure Value**

# Member Business Lending

- **Designing Your MBL Portfolio Structure**

- **Provide Loans to Finance Commercial Real Estate**

- ❖ **Wide Range of Real Property Types**

- ❖ **Owner – Occupied**

- ❖ **Non Owner – Occupied**

- ❖ **Understand Property Usage/Location/Value/DSC Capacity**

# Member Business Lending

- **Designing Your MBL Portfolio Structure**

- **Provide Loans to Finance Commercial Construction**

- ❖ **Wide Range of Construction Project Types**

- ❖ **No Cash Flow Produced During the Construction Period**

- ❖ **Loan Repaid from Sales Proceeds or Refinancing Proceeds**

- ❖ **Done on Time/To Specifications/Within Budget**

# Member Business Lending

- **Designing Your MBL Portfolio Structure**

- **Provide Loans to Finance Commercial Construction**

- ❖ **Feasibility Study to Justify Property Usage Plan**
- ❖ **Experienced Contractors, Architects and Engineers**
- ❖ **Comprehensive Construction Budget/Interest Reserves?**
- ❖ **Good % of Completion Draw Schedule and Site Inspections**

# Member Business Lending

- **Designing Your MBL Portfolio Structure**
  - **Provide Loans to Finance Commercial Construction**
    - ❖ **Viable Tenant(s) with Arms-length Market Based Leases**
    - ❖ **Viable Property Buyer**
    - ❖ **Property Value Predicated on Project Completion**
    - ❖ **Borrower has Tangible Investment in the Project**



# Member Business Lending

- **Designing Your MBL Portfolio Structure**

- **Provide Loans to Finance Operating Businesses**

- ❖ **Wide Range of Industry Sectors**

- ❖ **Must Understand Their Business Model Structure**

- ❖ **Must be Able to Measure Operating Cash Flow Accurately and Link it to Debt Service Coverage Requirements**

# Member Business Lending

- **Designing Your MBL Portfolio Structure**

- **Stay in Compliance with Regulations and Policies**

- ❖ **Address Concentration Risk Issues**

- ❖ **Link to % of CU Total Assets and % of CU Net Worth**

- ❖ **Be Capable of Aggregating Lending Relationships**

- ❖ **Decide How Loan Participations Fit in the Portfolio**

# Member Business Lending

- **Need a Risk Rating System for MBLs**

- **MBL Risk Rating System Structure**

- ❖ **Individual Grades Are Assigned to Every MBL at Approval and Reviewed/Updated Annually**
- ❖ **Risk Grades are Assigned Based on an Assessment of Key Performance Attributes – Safe and Sound Logic**
- ❖ **Performance Attributes Link to Underwriting Guidelines**

# Member Business Lending

- **MBL Risk Rating System**

- **MBL Risk Rating System Structure – Safe and Sound**

- ❖ **Primary Source of Repayment linked to Policy DSC Ratio**
- ❖ **Global Cash Flow DSC Ratio Higher than Entity DSC Ratio**
- ❖ **Is Global Cash Flow Being Used because Entity Cash Flow does not meet the Policy DSC Ratio Requirement?**

# Member Business Lending

- **MBL Risk Rating System**

- **MBL Risk Rating System Structure – Risk Matrix**

- ❖ **Assigning Attributes to Calculate the Risk Rating**

- ❖ **Quantifying the Attributes to Calculate the Risk Rating**

- ❖ **Quantifying and Overall Risk Matrix Score**

# Member Business Lending

- **FFIEC Suggests a 9-Grade System**

- **MBL Risk Rating System Structure**

- ❖ **Financial Attributes for Primary and Secondary Sources of Repayment combine to represent 60% of Score**
- ❖ **Owner(s) Capacity to Support represents 20% of Score**
- ❖ **Non-Financial Attributes – Entity Type, Business Age, Management Tenure and Experience, Industry Sector, Years a Member combine to represent 20% of Score**

# Member Business Lending

- **Risk Rating Grades**

- **Defining The Risk Grades**

- ❖ **Pass Grades – Comply with all Underwriting Guidelines**

- ❖ **Watch and Special Mention Grades – Comply with all Underwriting Guidelines but Show Signs for Concern**

- **Watch – Non Financial Issues of Concern – Paying as Agreed**

- **Special Mention – Negative Financial Trends – Paying as Agreed**

# Member Business Lending

- **Risk Rating Grades**

- **Defining The Risk Grades**

- ❖ **Substandard Grade – Does Not Comply with all Underwriting Minimum/Maximum Guidelines – Typically Paying as Agreed**
- ❖ **Doubtful and Loss Grades – Not Paying as Agreed and not Complying with all Underwriting Guidelines and Full Repayment is Not Anticipated**



# Member Business Lending

- **Risk Rating Grades**

- **Defining The Risk Grades**

- ❖ **Criticized Loans?**

- ❖ **Classified Loans?**

- ❖ **Impaired Loans?**

# MBS Regulatory Environment

- **NCUA - Changes in MBL Regulations**

- **NCUA has Modified Underwriting Requirements:**

- ❖ **Eliminated 2-Year Minimum Experience Requirement**
- ❖ **Eliminated Loan-to-Value Requirements**
- ❖ **Eliminated the Personal Guarantee Requirement**
- ❖ **Eliminate the 25% Equity Requirement for C&D Loans**

# MBS Regulatory Environment

- **NCUA - Changes in MBL Regulations**

- **NCUA has Modified Underwriting Requirements:**

- ❖ **Loan Types and Limits are Yours to Choose**

- ❖ **CUs Held Accountable for Safe and Sound Practices**

- ❖ **Asset/Liability Management – On You**

# MBS Regulatory Environment

- **NCUA - Changes in MBL Regulations**

- **Will No Longer be in the Waiver Business**

- ❖ **Let CUs initially define the Structure of a Safe and Sound Program**

- ❖ **Significantly less Regulatory Rules in Place**

- ❖ **Examiners will still Audit Performance – After the Fact**

# MBS Regulatory Environment

- **NCUA - Changes in MBL Regulations**

- **Elimination of Personal Guarantee Requirements:**

- ❖ **No Standard Tertiary Source of Repayment**

- ❖ **Impact on the Viability of Global Cash Flow for DSC**

- ❖ **Places Added Emphasis on the Viability of the Primary and Secondary Sources of Repayment**

# Member Business Services

- **So Here We Are.....**
  - **Challenging CU Operating Environment**
  - **Ever Increasing Compliance Costs**
  - **MBS Regulations – Significantly Modified**
  - **What Do We Do Going Forward?**

# Member Business Services

- **Can Member Business Lending and Member Business Services be a Strategic Solution?**
  - **MBS is the most leveragable Business Line**
  - **Creating Depth in member relationships is the secret to sustainable Profitability and Stability**
  - **Huge Opportunity for creating Depth in Member Business Relationships – They Need the Services**

# Building A Sustainable MBS Program

- **MBS Organizational Design:**
  - **Have a Strategic Plan in place for MBS/MBL Services**  
*- Reasonable Performance Expectations*
  - **Have adequate MBL Underwriting Experience on Staff and linkage to Qualified Outsourced Underwriting Services if Needed**
  - **Have Deposit gathering, Cash Management and Employee Benefits Products and Services in place**



# Building A Sustainable MBS Program

- **MBS Organizational Design:**
  - **Develop a Consultative Selling Relationship Management Structure – *Sell Solutions to Needs***
  - **Incorporate the Retail Delivery System into the MBS Program Management Process**
  - **Accurate and Timely Core Processing Systems and related Recordkeeping is Essential**

# Building a Sustainable MBS Program

- **Target Market Focus:**
  - **Hunt for Who you Want – Don't just react to Who shows up**
  - **A Compelling Value Proposition – Why would a viable business pick our Credit Union?**
  - **Good Business Development Skills – Pursue loans to businesses whose Business Model structure you clearly Understand**

# Building a Sustainable MBS Program

- **Target Market Focus**
  - Review the *Membership Base* to identify *Business Owners*
  - Profile the *Business Owners* in the existing Membership Base – *By Entity Type, Industry Sector, Ownership/Management make-up, Business Life Cycle location*
  - Link *Financial Products and Services* to *Business Model Profile Needs* and the *Personal Financial Services Needs* of the Owner(s)

# Building a Sustainable MBS Program

- **Identify and Create working relationships with Key Centers of Influence in the Business Community – *Accountants, Business Attorneys, Insurance Agents, Wealth Managers***
- **Have a proactive Contact Management System in use to track Sales/Production activities**
- **Have a good sense of the Strengths and Weaknesses of Target Market Competitors**

# Building a Sustainable MBS Program

- **Utilize Needs-based Selling Techniques**
- **Don't Sell Products – *Sell Solutions to Financial Services Problems***
- **Make sure you can *Speak to Members* in a *Common Sense* style, and clearly layout the *Cost/Benefit* equation**

# Building a Sustainable MBS Program

- Have *SBA, USDA, FSA Government Guarantee Loan Programs* in place or under consideration
- Have a Plan for *MBL Participation Opportunities* positioned as a *Buyer* as well as positioned as a *Seller/Lead Lender*
- Have a Plan in place regarding the use of *Outsourced Providers*

# Building a Sustainable MBS Program

- Be sure the changes in *MBL Regulations* don't materially change their *Risk Management* thought process
- Have the right *Performance Requirements* to meet *Debt Service Coverage*, and the Need to keep staying in *Compliance* constantly in Focus

# Building a Sustainable MBS Program

- **Key Collateral Questions:**
  - **Properly perfected Property Lien Rights**
  - **Plan for taking Physical Possession of the Collateral**
  - **Plan for Selling the Collateral – *Proceeds from the Sale pay off the Loan***
  - **Location, Value, Protection, Possession, Conversion – *What's the Plan?***



# Building a Sustainable MBS Program

- **Watch MBL Yields**
  - **Price for the identified level of Risk**
  - **Understand Cost of Funds/have a Funding Strategy linked to Business Deposits**
  - **NIM Management is the biggest driver of Earnings – Pricing Accountability!**
  - **Set floors on Variable Rate Loans**

# Building a Sustainable MBS Program

- **Non-Interest Income**
  - **Collect what you are Charging**
  - **Simplify fee Collection Processes**
  - **Include results of Collection Efforts in Performance Measurement**
  - **Compare Fee Structures with Market Competitors on an ongoing basis**

# Building a Sustainable MBS Program

- **Non-Interest Income**

- ❖ **Focus on Cash Management Needs**

- ❖ **Incent Business Credit and Debit Card Usage**
  - Interchange Fees – 50+ bps
- ❖ **Increase Interchange Fees from Business Cardholders**
  - ✓ **Annual revenues typically 3-4 times revenues per Consumer Cardholders**

# Building a Sustainable MBS Program

- **Non-Interest Income**
  - **Focus on Cash Management Needs**
    - ❖ **Fee Generating Products:**
      - **ACH, Wire Transfers**
      - **Internet Bill Paying**
      - **Remote Deposit Capture**
      - **Merchant Services**
      - **Lockbox**
      - **Positive Pay, Fraud Protection**

# Building a Sustainable MBS Program

- **Non-Interest Income**
  - **Focus on Cash Management Needs**
    - ❖ **Fee Generating Products:**
      - **SBA/USDA/FSA Origination Fees**
      - **Revenue Sharing – Leasing/Factoring**
      - **Payroll Services**
      - **Insurance Services**
      - **Wealth Management Services**

# Building a Sustainable MBS Program

- **MBS Organization Design**

- **Develop a stable skilled MBS Staff**

- ❖ **Regular Performance Measurement**
- ❖ **Create Individual Development Plans**
- ❖ **Create a Consultative Selling Culture**
- ❖ **Be Proactive and Anticipative**
- ❖ **Pay Market Value for Performance**

# Building a Sustainable MBS Program

- **MBS Organization Design**

- **Convey ongoing access to Business Management Process Improvement information to Business Members**
- **Provide Help from Experts**
- **Ultimate Differentiator – Best Staff**

# Role of The Board of Directors

- **Responsible for Actions of Business Loan Committee and MBS Staff**
- **Assure MBS Activities are in Compliance with Policies and Regulations**
- **Know what is in the MBL Portfolio**
- **Be Aware of Problem Loans and Related Management Action Plans**



# Role of The Board of Directors

- **Review and Approve the List of Approved Appraisers**
- **Be Familiar with the Strategic Business Plan for MBS Business Line**
- **Be Familiar with All Regulatory Exam Reports and all 3<sup>rd</sup> Party Loan Review Reports**



**NASCUS**  
**Member Business Lending Program**

**QUESTIONS??**

**Thank You!!**

**Jim Devine**  
**Hipereon, Inc.**