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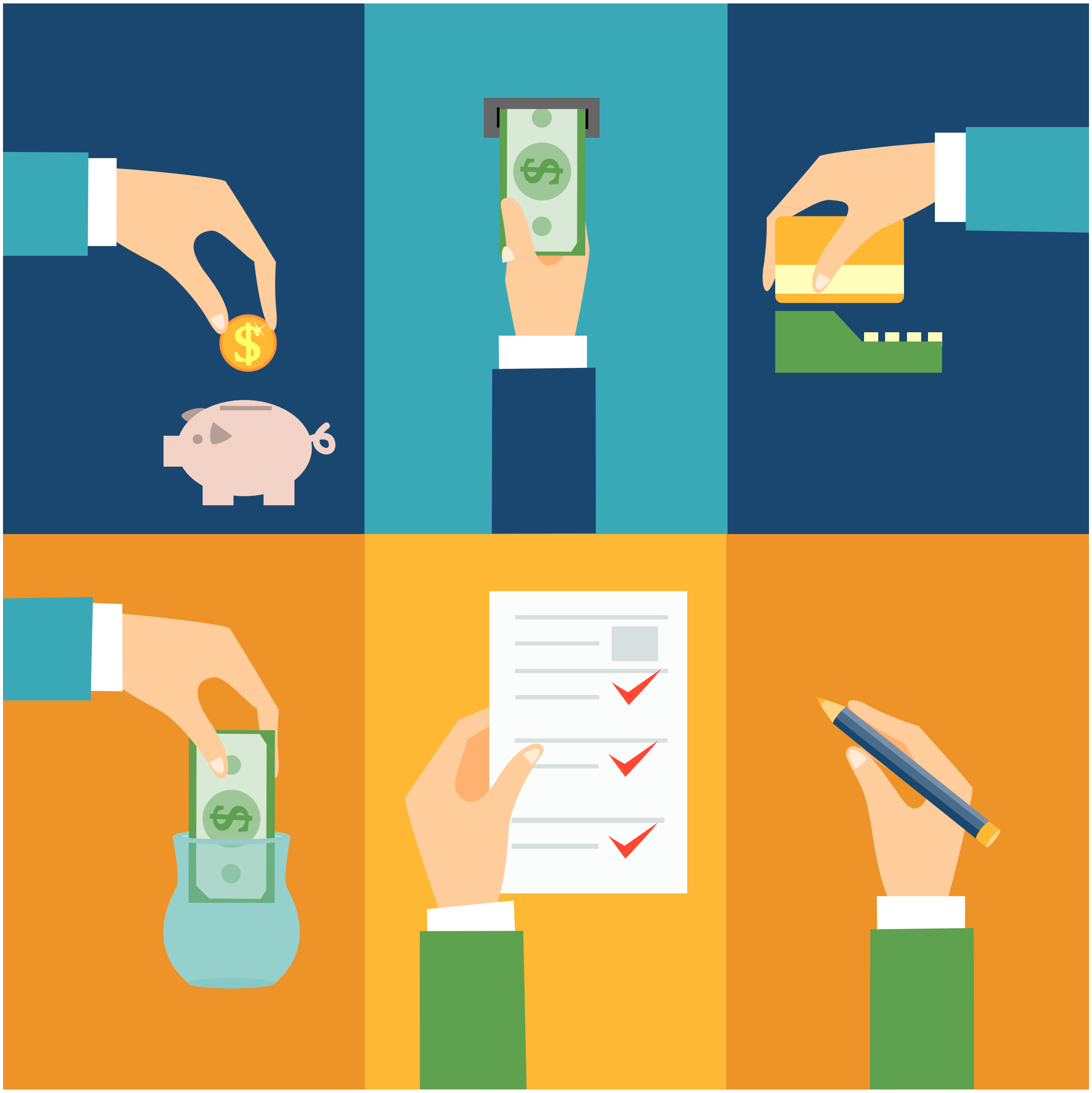
GET BUSY WITH BUSINESS LOANS



FOR MORE CREDIT UNION STRATEGY & PERFORMANCE VISIT

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In the United States, small businesses make up 99.7% of employer firms, according to the Small Business Association. As localized financial institutions, credit unions are well positioned to serve this business community. Although small business loans carry additional risk, credit unions from across the industry have proven time and again how to accommodate this risk while helping these firms fulfill their societal benefit. That's why this Callahan Collection offers examples of successful member business lending programs and initiatives from coast to coast.

THE MEGA OPPORTUNITY IN MICROBUSINESS

Three ways credit unions can connect with one segment of overlooked, underserved business borrowers.

BY AARON PUGH

Data from the Small Business Administration indicates that of all U.S. employer firms operating in 2010, 99.7% were small businesses. However, the definition of "small business" is wide reaching and includes everything from basic home-based, non-employer scenarios to complex firms with commercial operations and hundreds of employees. Among even the smaller businesses, though, there's an important subcategory to which nine out of 10 firms operating today belong: microbusinesses.

Microbusinesses typically require $35,000 or less in capital to get started, may operate out of a home, mobile location, or other less-traditional workspace, and normally have five or fewer employees. But despite their overwhelming prevalence, most mainstream lenders overlook these businesses. According to the Institute for Local Self Reliance, microloan volume — defined as $100,000 or less — fell 33% at U.S. banks from 2000 to 2012 and small business loans dropped 14%. Conversely, large business loans rose 36% during the same period.

This disparity represents a missed opportunity for financial institutions. Microbusinesses might carry additional risk, but the unmet, growing need in this demographic is something no community-oriented organization should gloss over lightly, and the following three tips will help credit unions better evaluate microbusinesses to determine the risk inherent in each loan request.

KEEP AN OPEN MIND

Although the high aggregate failure rate of small businesses is frequently publicized, factors such as years in business, business model, location, and more alter risk projections substantially.

For example, approximately 50% of new firms close within their first four years, but survival rates trend upward from there, according to the SBA. According to Forbes, 62% of microbusinesses report earning $100,000 or less annually with a growing number of non-employer and sole proprietor firms earning six or seven figures. Although a steady stream of income might not guarantee survival, it does indicate a business is offering the right services in the right place and time, and knowing the market like that impacts long-term viability and stability.

Before making, or denying, a microloan, credit unions should also consider the difference between temporary business shortcomings — such as setbacks from the recession or medical issues with the owner — and persistent issues that will continue into the future.

Concerns surrounding how socio-economic challenges and other widespread factors sway calculations for creditworthiness have led the SBA to develop a new predictive scoring method that combines the credit score of both owner and business into one unified metric. This is a valuable resource for SBA lenders — who no longer face the requirement of analyzing a business's cash flow — as well as a reminder for all lenders to look at the big picture to see the full potential of each lending situation.

BUILD THE IDEAL BORROWER

The short-term concerns and daily burdens of running a business are demanding. So much so that it's not unusual for owners to develop tunnel vision and neglect to hone their operational and financial skillsets beyond what they started with.

Unfortunately, the ability of lenders to coach these individuals — much less finance them — only extends so far. That's where incubators, community action organizations, and other third parties come in. These lending partners can not only share the educational burden but also foster a steady pipeline of vetted, mature loan opportunities.

Redwood Credit Union ($2.6B, Santa Rosa, CA) started its business lending program in the mid-2000s, says Michael Downey, senior vice president of business services. Today, approximately $20 million of its roughly $255 million total MBL portfolio consists of small business loans of $50,000 or less. Its average small business loan hovers around $35,000, but the credit union also makes loans of as little as a few thousand dollars.

"Underserved and emerging microbusiness was a group we wanted to reach out to and provide financing for since the beginning," Downey says. "Most people start a business because they're good at something, but that might not always be finance. As a result, many of these borrowers need additional educational resources to better understand things like their business plan, income statement, and cash flow."

In 2013, the credit union joined forces with the Community Action Partnership of Sonoma County to offer up to $1 million in loans to graduates who complete the organization's intensive 18-week incubator and financial education program and are referred to Redwood by their instructors.

"This was a natural alignment and a great first step for this market," Downey says. "Without that educational component as a risk mitigant, we might not be able to do these loans."

ADOPT A MICROBUSINESS MINDSET

Most, if not all, credit unions already have a host of microbusiness owners within their membership, but being able to identify and serve them is another matter. Microbusiness owners who feel shut out or overlooked by a credit union's business services department are likely to take one of two actions:

- They'll squeak by using consumer–level financial tools that are ill-suited for their needs. This often leads to issues for both parties down the line.
- They'll abandon ship altogether in favor of outside assistance, typically offered at a premium.

Credit unions who do serve their microbusiness members effectively tend to offer a middle ground that falls somewhere between the complex products and services used by commercial clients and the basic offerings used by consumers.

For example, Vystar Credit Union ($5.5B, Jacksonville, FL) offers a microbusiness starter credit card with limits as low as a $500. At Consumers Credit Union ($611.0M, Oshtemo, MI) business owners looking for a loan of $50,000 or less can fill out an express version of the credit union's standard MBL loan application. The form eliminates the need to provide three years of personal tax returns, business tax returns, and sophisticated business documentation like profit and loss statements. The truncated application allows borrowers to purchase necessities such as equipment and vehicle loans that microbusinesses would most likely be pursuing.

HOW TO THRIVE IN MERCHANT SERVICES

Greater Nevada Credit Union shares its business blueprint for creating holistic relationships with a spectrum of partners.

BY AARON PUGH

Credit unions that would like to start a program that taps into both large-scale commercial opportunities as well as the local small-business sector could do worse than choosing Greater Nevada Credit Union ($553.1M, Carson City, NV) as a mentor.

Member business loan growth at this credit union is up 145.23% year-over-year as of second quarter 2015, according to data from Callahan & Associates, compared to 10.51% growth for asset-based peers. And its use of government-guaranteed loans coupled with its focus on holistic business service relationships over one-and-done lending deals has mitigated lending risk to a fraction of what this amount of volume typically presents.

In fact, since the credit union relaunched its business efforts two years ago under Jeremy Gilpin, vice president of business services, it has not reported a single delinquency.

Here, Gilpin talks about the approaches and policies his six-person team uses to support a dynamic-yet-sustainable department.

WHAT IS YOUR BACKGROUND? WHAT ARE YOUR MAIN AREAS OF RESPONSIBILITY AT GREATER NEVADA?

JEREMY GILPIN: I was in banking for 21 years. My last nine years were spent as a senior loan officer, executive officer, and credit administrator for several banks in Oregon and Washington state.

Today, I oversee Greater Nevada's business services. We say business services versus business lending or MBL because we take a holistic approach to deposits, lending, cash management, remote deposit capture, and merchant services.

WHY DID GREATER NEVADA ENTER BUSINESS SERVICES? HOW DID YOU DECIDE WHAT PRODUCTS TO OFFER?

JG: Our approach was to think of all of the business service products that could help us compete with the larger regionals and then throw in the

CU QUICK FACTS

Greater Nevada Credit Union
CARSON CITY, NV

$553.1M
ASSETS

49,349
MEMBERS

11
BRANCHES

12.92%
12-MO SHARE GROWTH

22.14%
12-MO LOAN GROWTH

1.15%
ROA

> "One of the big struggles that small business owners have is time. We want our members to have access to something that's as quick and efficient as applying for a business credit card but without the burden of a higher rate."

exceptional member service that credit unions are known for to give us the edge over the competition.

We secured the expertise needed to offer these services as packages rather than piecemeal. But we designed it in steps knowing we would be hiring and rolling this out over several months.

We completely revamped our deposit products and made them more electronic friendly. We do not charge for electronic deposits because we know that's how our merchants do business. We were also able to create some ancillary products for which we knew there was pent-up demand, and these have helped drive our depository services versus your standard, 'Let's open a checking account and try to start selling ancillary products' approach.

WHAT HAVE BEEN THE BENEFITS OF OFFERING MERCHANT SERVICES?

JG: We expect our ancillary products and depository services to generate a large increase of non-interest income over the next 12 months. We consider merchant services an asset we're servicing because we look at these on a per-transaction or per-swipe basis, not necessarily by the balance in the account.

These holistic relationships help us with our loan pricing and depository pricing. So now a member with five employees can get the same treatment from us as a large tech company would receive from a major retail bank.

WHAT DOES THE CREDIT UNION'S BUSINESS LOAN PORTFOLIO LOOK LIKE?

JG: Like most credit unions, we are heavy in commercial real estate, mostly owner-occupied residential or commercial real estate. We have the capabilities for more commercial and industrial (C&I) lending, but we also do agricultural lending, which is a nice diversification for us.

HOW DOES GREATER NEVADA MITIGATE THE RISK OF THESE LOANS?

JG: We've taken a different approach where we do a lot of guaranteed lending, including SBA 7(a) and 504 as well as a lot of industry loans and USDA business loans in our rural communities under 50,000 in population.

Although we are real estate heavy in our portfolio from a risk standpoint, a lot of these loans carry up to 80% guarantees. All of the agriculture loans we currently have are guaranteed as well. So our risk is small in comparison to our portfolio.

We've also taken a different stance from what credit unions have done in the past by stressing business services first. All of our lending requires businesses to open primary operating accounts with us.

We also concentrate on assets under management versus assets on the books. This approach allows you to, in essence, have a much larger portfolio that you are servicing and managing but is not necessarily on your books.

WHAT LOANS DOES THE CREDIT UNION TYPICALLY SELL?

JG: We have started selling the guaranteed portion on some of our USDA loans on the secondary market and are earning non-interest income there while maintaining the servicing. We've stared taking that step with our SBA 504 portfolio as well.

This further mitigates our risk because those guarantees become unconditional once they're sold. So the person buying has an actual guarantee, whereas if you hold them, they are conditional guarantees, meaning there is a small chance to compromise the guarantee and lose it.

ARE THERE ANY OTHER BENEFITS?

JG: This approach helps shield us from interest rate risk as well, which is crucial in this rate environment. For example, we just sold a loan that had a balance of $402,000. Our interest rate was in the low 6s.

We were able to sell off 80% of that loan, and our year-one return was 58% because we got a non-interest income premium from the sale. Going forward, our liability is the remaining $80,000 loan, and with the servicing we retain, our effective rate of return is 8.71%.

This gives us some room in a moving rate environment to maintain the health and quality of our portfolio without having to go after the B, C, and D credit tiers.

»

LESSONS FROM THE PANIC ROOM

"One of the things our department has adopted from the tech influence in Reno is team-building days," says Jeremy Gilpin, Greater Nevada's vice president of business services.

But that's doesn't mean trust falls and a catered lunch. The credit union has participated in activities such as the local escape challenge theme park.

"You basically go through a door, an alarm sounds, and they lock the door behind you," Gilpin says. "A hour-long countdown begins, and you have to work together as a team to find clues and a key that will let you out."

Approximately 10% of teams make it out within the time limit, but Gilpin's group completed the challenge with one of the best scores on record.

"It's a fun way to learn to work together in a stressful environment," Gilpin says. "So when it's real life, you've already overcome those obstacles and are a cohesive unit.

"You also get to see everyone's strengths and weaknesses when stress hits," he continues. "One person will be creative, another will be analytical or organized. So you can use that information to adapt your business processes."

WHAT ARE OTHER LENDING-SPECIFIC AREAS OF OPPORTUNITY YOU SEE IN THE NEAR FUTURE?

JG: We have been approved to be an SBA Express lender, as several of our partners and our members have expressed a need for that niche.

There's no one really doing microlending in the state of Nevada because so many community banks were acquired or just went away. So instead of creating additional interest rate risk by dropping our rates to compete on large projects with Wells Fargo and Bank of America, we've started to offer microlending with a $25,000 or less line of credit.

The average microloan size is going to be around $16,000, but in some cases, a borrower might only need $5,000. We're here to serve that $5,000 member, too. Such loans carry a 50% SBA guarantee, unless it's tied to exporting and then it's a 90% guarantee.

Some of our new software in which we can plug in our specific credit guidelines will make automated preapprovals available from our website. Once approved, a loan would be tied to a checking account, and it would sweep the payment. Cash management and remote deposit capture allows us to also offer this product in areas of Nevada where we do not have a physical branch because everything would be electronic.

That's important because one of the big struggles that small business owners have is time. We want our members to have access to something that's as quick and efficient as applying for a business credit card but without the burden of a higher rate.

HOW ARE YOU TRACKING YOUR SUCCESS AS A DEPARTMENT?

JG: We certainly want to generate revenue. Those premiums off the sales of the guaranteed portfolio alone have the potential to produce $1 million to $1.5 million in non-interest income on an annual basis. That's straight to the bottom line, straight back to the membership.

When we achieve that, we can afford to give our business members everything they would find at a larger institution and still provide better customer service. At large banks, these borrowers are a number, but we're looking to give small businesses back their name.

HOW ABOUT IN TERMS OF INDIRECT BENEFITS?

JG: Our biggest source of new business membership and new growth comes from government agency referrals. We've become the go-to source for United States business and industry loans, so now those agencies are driving business into our credit union, which allows us to focus on member service.

Out of our first quarter growth, 30-40% has come from governmental agencies that have referred businesses to us. So instead of taking the typical approach and hiring several originators to beat the streets, we've formed great partnerships that are helping to build a stronger foundation for us.

GIVE THEM THE BUSINESS

How Members Choice Credit Union started an SBA lending department to spark new business in the Houston area.

BY DREW GROSSMAN

The Small Business Administration was founded in 1953 to support entrepreneurs and small businesses with the goal of "maintaining and strengthening the nation's economy by enabling the establishment and viability of small businesses." For many small business owners, administration support is most evident in the SBA-guaranteed term loans that allow lenders to help growing small businesses.

HELPING THE RECOVERY

Members Choice Credit Union ($500.9M, Houston, TX) is a state-chartered, community credit union that has served the Houston area since 1941. It launched its SBA lending program in 2009 in response to the financial crisis. At the time, many banks were pulling back on business lending and reducing businesses' lines of credit, which created a need in the community and an opportunity for the credit union.

"We had members and non-members knocking on the door asking if we did business lending, which told me there was a market demand out there," says Steven Gilman, CEO of Members Choice.

Houston is the fourth-largest SBA district in the nation. The area has many SBA lenders, and Members Choice has been among the top, and one the few credit unions, SBA lenders in the Houston market for the past two years.

"We have a long list of borrowers who were frustrated with their inability to get a business loan in the Houston market," says Steven Gilman, CEO of Members Choice.

INVESTING IN THE RIGHT EXPERTISE

To get the business lending department up and running, Members Choice brought on two key hires, Bruce Hurta and Pat Harris. Hurta — who has worked with community banks, a lending startup, and as a bank examiner — has extensive experience in SBA lending and joined the institution as business lending manager. Pat Harris — who brought experience in underwriting, closing, and packaging loans — came on as the business lending administrator.

"You have to understand the market value of bringing in SBA expertise and be willing to commit to that," Gilman says. Gilman himself has past experience in business lending, which gave the new additions confidence the credit union was in business lending for the long-term and understood what was necessary to be successful. In addition to identifying and recruiting the

CU QUICK FACTS

Members Choice Credit Union
HOUSTON, TX

$500.9M
ASSETS

40,858
MEMBERS

9
BRANCHES

2.49%
12-MO SHARE GROWTH

34.64%
12-MO LOAN GROWTH

0.62%
ROA

“We have a long list of borrowers who were frustrated with their inability to get a business loan in the Houston market.”

right outside talent, the credit union invested in a new system to lay the groundwork for a strong operation and sought the help of a lending CUSO for servicing, underwriting, and SBA requirements.

“Using the CUSO and having another set of eyes helped the board to feel comfortable,” Gilman says. “And then, of course, the SBA loans initially had to be sent to SBA for approval. We have since achieved preferred lender status because we did enough loans and SBA is now comfortable with our underwriting.”

The CUSO was an important resource for Members Choice as it established its own track record, but the credit union is now able to independently work its SBA loans, which enables it to move loans more quickly through the pipeline.

GETTING THE BUSINESS

Some business lenders combine marketing and business development with administrative tasks such as underwriting, processing, and closing. At Members Choice, the two roles are separate.

“I’ve found switching from marketing tasks to administration tasks wasn’t the most productive for me,” Hurta says. “Being able to focus on bringing in business all the time, every day, I come up with ideas that I’m surprised at some times.”

The four-person team at Members Choice includes two positions completely focused on bringing in new business. Those positions have evolved into a mechanism to develop deeper relationships with area business owners who can refer business to the credit union. For typical commercial customers, most financial institutions focus on serving all the financial needs of the business. However, SBA lending tends to be transaction-based because businesses only qualify for the program two to three times before graduating to conventional financing.

“By handling the transactions in the most expedient and effective way and treating the customer right, we’ve built relationships at the credit union without even focusing on it,” Hurta says.

Hurta maintains an SBA lending blog, blasts emails, and attends local business gatherings to spread the word about Members Choice’s SBA lending. He is also involved in several chambers of commerce and business organizations within the community. The credit union’s program has been featured in local publications including The Houston Business Journal and Small Business Today.

ACHIEVING RESULTS AND MAINTAINING A MARKET NICHE

Under the SBA program, the credit union has originated 78 loans for slightly less than $60 million. It has had to charge-off one loan that, after the SBA guaranteed coverage, cost the credit union $9,800. Even small losses, however, underscore the importance of expertise and attention to detail.

“If you don’t service [the loan] properly, you don’t document it, you don’t follow up properly and there’s a loss, SBA will pay only some or none because you didn’t follow the program,” Gilman says.

Members Choice’s original business plan called for $10 million a year in SBA loans; it has since expanded the program as a result of its larger-than-anticipated success. Unlike other institutions that focus on larger commercial loans, however, Members Choice has stayed true to its SBA niche and has become well known within the community. This has allowed the credit union to make more loans without taking on undue risk.

“If you’re doing member business lending, the regulatory cap is 12.25% of total assets; that’s about a $55 million cap,” Gilman says. “Our regulators only count the unguaranteed portion of our SBA loans, which represent typically about 25% of the principle.”

The economy has improved since 2009 and banks have returned to business lending, but Members Choice is still doing well because of the relationships it has built and the team it has assembled. That team recommends SBA lending for credit unions that are willing to undertake a not-so-simple endeavor. Members Choice invested early in terms of talent, experience, and resources. Without such an investment, the business lending team would have had a long and difficult road to success.

“There is a lot of complexity around the standard operating procedures that are required by SBA,” Gilman says. “I recommend either hiring someone or partnering with a CUSO who has a full and deep understanding of the SBA programs and will stay on top of the standards, which change on a regular basis.”

FOSTERING SMALL BUSINESS IN THE BIG APPLE

One New York credit union nurtures startups and established businesses in the nation's most competitive city.

BY AARON PUGH

For entrepreneurs and small businesses, the journey from startup to thriving establishment is full of peril, particularly when it comes to securing the capital so essential for growth.

According to the Small Business Borrowers Poll conducted in 2013 by the Federal Reserve Bank of New York, 37% of small businesses across a four-state region all listed credit availability as one of their top challenges.

In fact, less than half of those businesses that applied for a loan last year were approved. Among those that did not apply, one in four refrained because they did not believe there was any chance they would qualify for financing.

The need is clear. But given the high failure rates that often accompany startups, many financial institutions question whether they can successfully lend to these businesses without exposing themselves to undue risk.

So it may come as a surprise that one New York credit union has actually increased its total annual member business lending at a growth rate roughly five times that of its comparable peers (21.63% versus 2.66%), while simultaneously experiencing dropping delinquency rates across the board.

Lower East Side People's Federal Credit Union ($46.0M, New York, NY) formed more than a quarter century ago when the last commercial bank in an underserved area of the city closed shop. Over the past decade, the cooperative evolved and diversified its service offerings, particularly for small businesses.

Today, LES People's focuses its business lending predominantly on local, established businesses, says Angel Garcia, the credit union's business development specialist. However, its portfolio does include about a 10% mix of loans and lines of credit issued to fledgling entrepreneurs and startups, which the credit union defines as those existing for less than two years.

HIGH, LOW, AND EVERYTHING IN BETWEEN

"Our small business loans typically average around $48,000, with a minimum limit of $500 and a ceiling of $250,000," Garcia says.

Although Garcia is primarily responsible for generating, packaging, and underwriting these loans, loan policy requires that others in the credit union's staff and leadership be involved, particularly for high-dollar loans and exceptions to standard policy. This includes the credit union's business loan officer, who also oversees its commercial and multifamily housing efforts, and its lending manager.

CU QUICK FACTS

Lower East Side People's Credit Union
NEW YORK, NY

$46.0M
ASSETS

8,363
MEMBERS

4
BRANCHES

9.84%
12-MO SHARE GROWTH

8.00%
12-MO LOAN GROWTH

0.07%
ROA

"We want to make sure they are not competing directly with a large national retail chain or someone else who can generate millions in sales. And if there's something unique about them or the services they provide, we want to help draw that out."

In addition, the CEO signs off on loans up to $100,000, and any amounts over that limit also require the approval of LES People's credit committee. As another way to mitigate risk, the cooperative secures more than 90% of its business loans through the Small Business Association's 7A Express program.

Larger dollar loans can certainly mean bigger opportunities, but the credit union doesn't overlook the other end of the spectrum either.

"When it comes to loans for startups, the recession did make us rethink some of our policies," Garcia says. But in the right circumstances, LES People's will still fund these startup businesses, provided the borrower meets these criteria:

- A reasonable amount of cash, typically equal to a third of the business's total financial need
- A cosigner
- Proven experience and solid planning for a successful endeavor.

CONNECTING THROUGH NONTRADITIONAL OPPORTUNITIES

To generate a steady pipeline of new business, Garcia frequently attends small business workshops and seminars — both for networking and to teach budding entrepreneurs best practices for successfully obtaining a loan.

"For those businesses that are just starting out, we can walk them through the basic steps and explain what our thinking is as a lender," Garcia says. "Sometimes that's as simple as handing out worksheets that help owners understand their personal debt burden and determine whether they have operating profits greater than the amount of money they'll need to pay on a loan."

These discussions with entrepreneurs also allow LES People's to provide an outsider's perspective on the viability of the borrower's business model.

"We want to make sure they are not competing directly with a large national retail chain or someone else who can generate millions in sales," Garcia says. "And if there's something unique about them or the services they provide, we want to help draw that out."

Because these businesses are operating in a region where real estate packs a serious sticker shock punch, securing and paying for that space is another point of concern.

"If you're making a large monthly fixed payment to the landlord, it's like having another loan, so we always factor that into what the borrower is actually capable of handling," Garcia says.

The credit union has also funded some unique alternative business models such as food trucks, equipment for home-based operations and offices, and businesses with shared distribution channels or sales space that allow individuals to keep their overhead low.

WHAT GOES AROUND COMES AROUND

In cases where the risk is just too high or the business plan too raw, LES People's typically refers individuals to one of the many free small business development and technical assistance centers nearby.

In return, these organizations send more prepared, business-savvy clients that are ready for financing back to the credit union.

LES People's also has ties with several universities, including Pace and Columbia, whose small business centers provide a feeder for well-equipped individuals looking to make their big idea a reality.

"These outside referrals are important to us because even though we are headquartered in the Lower East Side, we can actually lend throughout the five boroughs as long as the business owner has a personal annual income under $38,000," Garcia says.

HOW A FLORIDA CREDIT UNION MIXES BUSINESS WITH BUSINESS

Community First's referral partnership with its local university small business center mixes money with mission.

BY MARC RAPPORT

Small business is a growing business for Community First Credit Union of Florida ($1.3B, Jacksonville, FL), helped along by its partnership with a hometown college.

Community First got into member business lending approximately 10 years ago, about the same time it opened a branch and deployed ATMs on the campus of the University of North Florida. About five years ago, Community First ramped up business services with efforts that included building an informal referral relationship with the school's Florida Small Business Development Center (SBDC).

Now, in addition to serving the more than 17,000 students and staff at UNF, the credit union sends budding business people to the center for workshops, roundtables, and training that includes everything from creating business plans to blogging and social media.

In return, the SBDC sends potential small business borrowers to the credit union.

"It was evident as we discussed with members the idea of small business ownership and borrowing that many wanted low- or no-cost training, guidance, and best practices on growing their businesses and becoming better entrepreneurs," says Susan Verbeck, senior vice president of lending at the 110,310-member Community First. "The SBDC at UNF has the knowledgeable, trusted experts that make it the perfect place for such guidance."

And because the center understands the credit union's philosophy toward supporting the community, it frequently refers small business owners ready to take the next step in growing their business to Community First's business lending department. It's a symbiotic relationship, although the credit union doesn't keep track of how many referrals have gone each way.

"We have no formal agreement with the center," Verbeck says. "But have a built a relationship based on mutual respect."

Other relationships have been built, too. For example, the credit union sponsored a six-week training program at the center, funded by a ScaleUP grant from the Small Business Administration. Community First's role was to supply the refreshments.

"This provided us access to 38 small business owners ready to take the next step in their business ownership careers," Verbeck says "Our business lending officers attended each session, and we've been in contact with all the graduates and have generated at least five new business members."

A GROWING BUSINESS

The SBDC connection is helping the credit union add to its roster of more than 4,000 business memberships across northeast Florida that includes large manufacturers, lawn care businesses, accounting and medical offices, and startup beauty shops.

The credit union is following a strategy it developed two years ago after it identified member business services as a strategic focus and started targeting businesses up to $5 million in sales.

"We created a roadmap for both deposit services and lending products that would take us to a new level of brand awareness and success with business owners," Verbeck says. "We believe we are right on target with our accomplishments"

CU QUICK FACTS

Community First Credit Union of Florida
JACKSONVILLE, FL

$1.3B
ASSETS

110,310
MEMBERS

17
BRANCHES

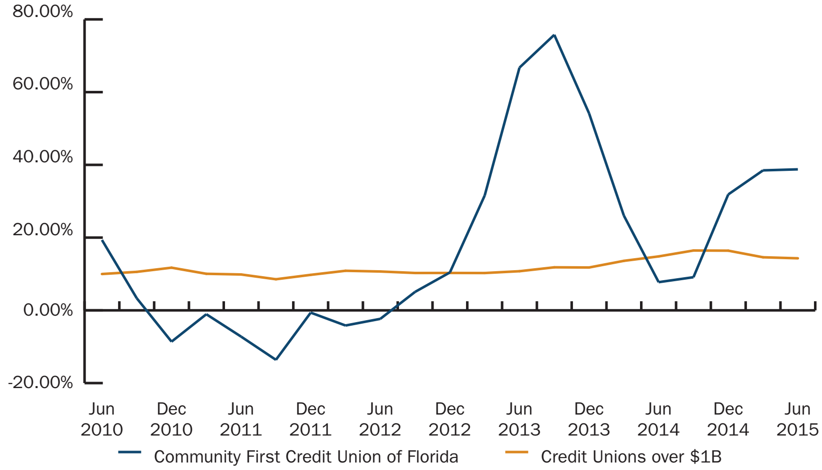
1.74%
12-MO SHARE GROWTH

12.63%
12-MO LOAN GROWTH

1.28%
ROA

> "The SBDC connection is helping to add to a roster of more than 4,000 business memberships across northeast Florida, ranging from large manufacturers to lawn care businesses, accounting and medical offices, and startup beauty shops.."

MEMBER BUSINESS LOAN GROWTH



All Graphs Generated by Callahan & Associates' Peer-to-Peer Software

That strategy includes expanded non-lending services, including three different "attractive and cost-effective" business checking accounts tailored for small, medium, and larger enterprises, Verbeck says. They're joined by mobile banking and deposits, credit card processing, and payroll services.

Verbeck says a majority of the business memberships are deposit only, but the credit union is working to change that.

"As we deepen relationships with business owners, we explore their loan needs and provide working capital lines of credit, business credit cards with rewards, equipment and auto loans, and financing for office condos, buildings, and warehouses," the lending SVP says.

Business member deposits have grown as a result, including 40% in the past year alone, Verbeck says. Meanwhile, Community First posted MBL growth of 38.77% as of second quarter 2015 — placing it in the top quintile in its asset-based peer group.

"Community First's existing member business loan portfolio is small in relation to our asset size — $32 million of our $809 million in total loans," Verbeck says. "But over the next three to five years, we intend to grow that to roughly $75 million as we focus on the business loan opportunities in our market."

There is indeed room in the books for more lending. Community First's loan-to-share ratio was 71.86% in fourth quarter 2014 compared to 80.42% for the average billion-dollar credit union. It's also well capitalized, with its capital ratio at 13.33% compared to its peer average of 11.26%. Its ROA at the end of 2014 was 1.28% compared to 0.98% for its peer group.

THE DOUBLE BOTTOM LINE

Although the numbers are good, performance isn't exclusively what the credit union's business focus is all about. It's also about doing good while doing well, the double bottom line.

"There's no shortage of individuals desiring to own their own business and be their own boss," Verbeck says. "Many of them, though, need to get started quickly but don't know how."

For those folks, the credit union immediately refers them the SBDC so they can learn what they need to start their own business. According to Verbeck, the credit union has received positive feedback even when that referral doesn't ultimately lead to more business for the credit union.

"Occasionally, there'll be the member who learns there's more to starting a business than he thought," Verbeck says. "His expectations of going to the center for a jump-start are dashed by the reality of how much goes into this."

Providing that learning moment speaks to the credit union's core mission and original purpose.

"Community First's commitment to the community we serve is built on providing financial solutions," Verbeck says. "This includes financial education to both consumers and businesses. This credit union was founded to serve educational employees. Our support for the community's financial education today is as important as it was then."

A CRITICAL CHOICE: CHOOSING THE BEST BUSINESS LENDING VENDOR

Small or large, ensuring the right business lending specialist has experience and talent is key to successful partnership.

BY CU COMPANIES

Lenders, including credit unions and banks who originate commercial loans, look to third- party vendors for auditing, a la carte services, and/or portfolio servicing. These components to business lending are critical to such a program because of the risk involved; however, knowing which vendor is the best match can be just as cumbersome as a commercial loan itself.

INSIDE VS. OUTSIDE

When a financial institution evaluates a potential business borrower, it has a choice between internally reviewing applicants or outsourcing to a commercial underwriting vendor. Though there are many factors to take into account, a financial institution should make a decision based on how much additional value a vendor can provide to both the borrower and the institution itself.

The right credit administration service organization comes with a team of experienced, talented, and knowledgeable individuals to provide a comprehensive financial analysis for adherence to specific policies and guidelines. With their combined experiences and wealth of expertise, lending institutions can rest assured that they are minimizing risk and making the best decision.

LOOKING FOR THE RIGHT RISK MANAGEMENT VENDOR

Lending institutions need to ensure the vendor they decide to work with has a wealth of experience. The vendor's resume is the most critical bit of information a financial institution can use to evaluate the vendor's ability to perform the job well. It's important for financial institutions to feel confident in the pool of talent and experience available through the vendor. The right vendor will have a wealth of talent and experience to ensure all needs will continually be met. Assembling a team with experience and expertise in commercial lending will help improve a financial institution's ability to evaluate risk.

HOW SMALLER AND LARGER ORGANIZATIONS EVALUATE VENDORS

The size of a financial institution tends to determine what it needs from a risk management vendor. For example, a smaller organization would likely prefer interacting with a vendor who promptly answers questions that arise. And while availability might be something that a more compact operation looks for, a larger organization prefers a vendor that quickly and efficiently completes the job.

Get the full Choosing the Best Business Lending Vendor whitepaper to learn more tips that will help you make this critical choice.

CU COMPANIES

Reduce your MBL risk.

call us for a **FREE** whitepaper on choosing an ideal MBL vendor

Your business borrowers see you as their commercial loan partner. Enhance your MBL strategy by looking to CU Companies and its Member Business Lending division as your solution for commercial underwriting and risk management services.

We are owned by 65 credit unions and used by credit unions with over $4 billion in assets to less than $50 million in assets. We know you, we know your members, and we care about reducing the risk involved with business lending.

Gain MBL Confidence

- Use our extensive expertise to mitigate risk.
- Fulfill your portfolio strategy with little to no overhead.
- Fill the gaps in your commercial lending efficiencies.

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