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Credit Unions as a Funding Source

These financing options, as well as subsidiary service organizations, have gained ground

MOST COMMERCIAL MORTGAGE BROKERS have business-owner clients who ask for help with their funding needs. Many brokers will collect the necessary documents, put a package together and submit it to all lenders they think might look at it. All the while, they cross their fingers and hope that a lender will consider and eventually approve the loan.

Eventually, however, brokers can realize that this approach wastes time.

Legitimate cases for refinancing maturing commercial real estate loans, purchasing healthy businesses or otherwise restructuring existing business loans persist, even in an environment where funding sources have been severely strained.

Despite the credit crunch, new opportunities for mortgage brokers seeking innovative funding sources for their clients' deals could reside in credit unions and credit union service organizations (CUSOs).

In the past few years, many people became concerned about the safety of their deposits with traditional banks. These fears contributed to a significant surge in deposits at credit unions.

On the surface, this may look like a blessing for credit unions. But many faced a new challenge: where to invest this money for greater returns. The answer for some of the savvier credit unions has been to expand into commercial and business lending.

Many larger credit unions have assets of only several-hundred-million dollars, much like community banks. They keep almost all loans they make in their portfolios. The smaller size and the fact that their loans are not sold on a secondary market means that, in general, credit

unions will be conservative and prefer to stay close to home. At the same time, it also means an underwriting philosophy that looks at each loan's merit on its own, with little or no concern about packaging it as part of a resalable product.

Another perceived challenge is the fact that, as a regulatory cap, a credit union only can invest around 12.5 percent of its funds in business loans. Some have managed to gain a waiver and can do as much as 20 percent, however.

There are different models for credit unions to offer commercial lending, but one of the more-effective methods is to do so through a fully or partially owned CUSO. Being part of a CUSO — a subsidiary that a credit union can join or create — helps credit unions overcome these regulatory challenges and limitations.

There are numerous smaller credit unions that would like to take advantage of the windfall that has come their way but that cannot justify the resources needed to start a commercial lending operation. One option is for a larger credit union to offer others the option of equity-ownership or simply participation through its CUSO.

This benefits both parties. The smaller credit union gets its feet wet in commercial lending with little or no investment of its operational resources, and the larger credit union can lend outside its regulatory-imposed geographical constraints. This is the main advantage of CUSOs over other commercial lending models for credit unions.

Further, at a time when conduit lenders and insurance sources have practically dried up, credit unions often can present

mortgage brokers with attractive solutions for their clients' income-producing properties and business loans.

For example, you may find a five-year, fixed-rate loan with a term of 10 years at less than 7 percent with no prepayment penalties. Further, many credit unions will lend \$6 million to \$7 million on a single property.

Commercial brokers wishing to expand their funding sources can start by getting to know their local credit unions. Whether they are large or small and whether they do commercial lending or not, it's often wise to know their lending philosophy.

Credit unions and CUSOs that do commercial lending can become a great source for you and your clients. Inactive ones also could become your best-kept secret against your competition. There are CUSOs that will assist your local credit union with everything from loan processing to underwriting, funding and servicing. This could create an exclusive source of funding for your clients' deals. ●

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