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CUSOs Expand Business Services

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Business services are often lacking in credit unions, in part because of the specialized knowledge required to lend prudently and the sizable base of loans and deposits needed to cover those costs.

Like many other areas of credit union operations, the means to support business lending and deposits among smaller credit unions has been

supplied by CUSOs, and is one of the reasons Member Business Loans are one of the fastest growing segments of credit union portfolios.

While overall credit union lending rose 59% since 2011, MBLs have risen 90% to \$61.1 billion in March, accounting for 7% of all loans among federally-insured credit unions, according to NCUA data.

The growth of business lending among credit unions led in 2002 to the founding of CU Business Group, LLC in Portland, Ore. CUBG now has 43 employees, most of them in Portland, but also in San Diego, Houston and New York. CUBG hires underwriters and credit analysts who are familiar with a variety of industries. Other specialists focus on deposits and compliance.

“We started small, but the business model was scalable and could be offered throughout the country,” CUBG CEO Larry Middleman said. “We’ve had a good run.”

CUBG now serves 560 credit union partners across the country, including providing support to the nation's largest credit union: Navy Federal Credit Union of Vienna, Va. (\$81.5 billion in assets, seven million members).

“We have some very large ones and some small ones too,” Middleman said.

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Two-thirds of the portfolio value of MBLs is held by credit unions with assets of \$1 billion or more.

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This includes Meritrust Credit Union of Wichita, Kan. (\$1.3 billion in assets, 91,720 members), which hired CUBG 10 years ago when it had \$15.7 million in MBLs. Over the next five years its portfolio more than doubled. Since then, the portfolio has flattened, and the credit union has turned its attention to improving its account services to draw more business deposits, for which it also relies on CUBG's help.

Business deposits have grown from about \$5 million in 2008 to about \$29 million this year.

Meritrust was founded in 1935 by employees of an airplane manufacturer later bought by Boeing. It obtained a community charter in 1994 and is now the largest credit union in Kansas. It had long been one of the top auto lenders in the state, and in 2003 it began offering business loans.

In 2007, Meritrust decided to ramp up its commitment to business lending. Brian Davidson was director of member business services, and Angela Back was hired late that year as a second commercial lender. Davidson then had 24 years of banking experience; Back had 10 years.

“The Meritrust board said, ‘We’re either going to do business lending or we’re not,’ and they obviously voted to invest in the personnel that had some experience with business lending,” Back said.

Soon after, Davidson was promoted to chief lending officer and Back was promoted to replace him. She is now Meritrust's director of deposit strategies. They hired CUBG to set them up for the expansion.

After five years of growth, the credit union has turned to strengthening its business relationships, in part by expanding its account offerings to including more sophisticated account services for businesses.

With CUBG's help, Meritrust launched a new business deposit program in March. It includes three types of checking accounts and one designed for non-profits. It also offers business members electronic banking, ACH and payroll services.

“Since then we’ve seen a nice increase in business deposit balances,” Back said.

Meritrust's current business borrowers typically have three to five employees and annual revenues under \$1 million. Now Meritrust wants to attract businesses that have 20 to 25 employees and \$5 million to \$10 million in revenue.

“We’re not there yet; we’re taking it slow,” Back said.

She said the advantage of using CUBG is that some lenders are in businesses that are outside of the experiences of Meritrust's commercial lenders. For example, several borrowers have

been franchisee hotel owners. There are only a limited number of such businesses in the Wichita area, but the business model is widespread nationally.

CUBG sees much of its potential for growth among smaller credit unions, but those with at least \$100 million in assets, Middleman said. Its average client is between \$300 million to \$500 million in asset size. That class encompasses 237 credit unions with total assets of \$93 billion and \$4.5 billion in MBLs.

Prospects include credit unions that want to:

- Start business lending. They need help setting up systems and underwriting initial loans.
- Expand their existing business lending. “They’re cruising along but not with the results they’d like to have,” Middleman said. CUBG can introduce more sophisticated deposit account features or increase their portfolios through participations.
- Ensure their lending methods and standards are solid.

The third way, which Middleman said is happening more frequently, is from credit unions that have a long, solid record of business lending, but call on CUBG for quality control, such as loan audits. “We scour the operation to see that they’re doing things well and the controls are firmly established and working.”

CUBG's fees are based on time and effort. It also has a membership package that includes annual compliance and policy updates.

“If it's just a small thing, [fees] may be only a couple hundred dollars. If it's a large quality control project where we're reviewing a pretty large amount of loans in the portfolio, it may be over \$10,000,” Middleman said.

Setting up a business lending program from scratch at a \$300 million credit union might cost about \$20,000 for CUBG's full package. This includes policy templates and compliance materials. A senior consultant visits to determine the credit union's needs, help install systems and train employees.

The total cost of starting a business lending program is likely to be \$100,000 to \$200,000, which includes continuing salary and service expenses. This requires a loan portfolio of at least \$5 million and typically the resources of a credit union with at least \$100 million in assets, Middleman said.

Money, experience and commitment are key ingredients to succeeding in business lending, and that starts with the person in charge, Middleman said.

Senior management needs to support the launch “both financially and philosophically,” he

said.

“They absolutely need some kind of a point person,” he said. “You get what you pay for. If you transfer somebody over from the credit union who doesn't have much experience, the results aren't going to be as robust as if you to hire somebody with more experience, or perhaps, you can transfer somebody within the credit union with more experience.”

This person would typically be officer level, or an assistant vice president.

“For a billion-dollar-plus credit union that has a lot of room to grow, they would want somebody at the VP level of experience,” he said. “There will probably be a lot of deals that will be big and complex.”