



BULLETIN

Colorado Division of Financial Services

1560 Broadway, Suite 1520, Denver, CO 80202 Ph (303) 894-2336 Fax (303) 894-7886
www.dora.state.co.us/financial-services



Issued to: State-Chartered Credit Unions

Subject: Businesses as Credit Union Members and Member Business Lending

Date Issued: June 9, 2004

The purpose of this regulatory bulletin is to (1) confirm the Division's interpretation of state credit union law regarding the eligibility for credit union membership of business entities and (2) set forth the Division's expectations as to how state-chartered credit unions engage in member business lending.

The Division historically has interpreted the following provision of § 11-30-103(1), Colorado Revised Statutes, as providing the statutory authority to allow organizations, including business entities, to join state-chartered credit unions:

Organizations, incorporated or otherwise, composed for the most part of the same general group as the credit union membership may be members.

Our position is that this language applies to any employment or associational organization, whether a core membership group or a small group (SEG), in a credit union's field of membership. Some credit unions have added the phrase "organizations of such persons" to the field of membership description in their bylaws in order to effect the above provision.

However, actually serving business organizations, beyond simple savings or checking accounts, can expose credit unions to significant risks and costs. Member business lending, in particular, is not for every credit union. Member business lending is a very specialized, complex area that usually is higher risk in nature, and any credit union offering such a service must plan very carefully to do so.

The Division's expectations for any state-chartered credit union engaging in member business lending are as follows:

1. The credit union first must have sufficient written policies and procedures to properly guide its member business lending.
2. The credit union must have personnel on staff (or by contract with a third party) with demonstrated expertise in analyzing, underwriting and recommending credit decisions for the types of loans being made as well as administering such loans once made.
3. The credit union's board of directors and top management must become sufficiently knowledgeable about member business lending to be able to provide appropriate oversight. As the Division has stated for other types of lending, a credit union board and top management can delegate the authority, but not the ultimate responsibility, for the credits they put on the books.

4. The credit union must maintain appropriate file documentation to support its loan underwriting and the proper administration of each loan, including obtaining complete loan file copies for all business loan participations purchased.
5. The credit union must be in compliance with the National Credit Union Administration's member business lending rule, 12 CFR Part 723. All NCUSIF-insured, state-chartered credit unions are subject to the NCUA's member business lending rule pursuant to 12 CFR Part 741.203(a).

This bulletin is not intended to provide comprehensive guidance regarding member business lending. The aforementioned NCUA member business lending rule does provide more detailed guidance. Should you have any questions, please do not hesitate to contact your assigned Division examiner or this office.