



## MBL Annual Loan Review Procedure Updates

NCUA and SBA expects lenders to monitor the financial condition of member-borrowers through periodic analysis of financial statements and other data sources such as credit reports, credit scores and tax returns. With examiners becoming increasingly focused on annual reviews of member business loans, MBL has updated its procedures to ensure loan reviews are performed in a timely manner, and consistent with the underwriting method utilized at origination.

MBL's annual loan review procedure provides that all loans serviced by MBL undergo an annual review during its anniversary month, to aid the participant credit union in determining the ongoing creditworthiness of the borrower/business and to identify potential weaknesses, which may result in increased monitoring or other actions necessary to maximize recovery.

Under the Express Program Guidelines, loans amounts up to \$100,000 are processed using a credit scoring model. However, many lenders request financial statements from borrowers for loans over \$50,000. Because the original analysis used a credit scoring model which relied on consumer and business credit information as well as required draw and payment history, MBL has updated its procedure to apply the credit scoring model to loans up to \$100,000 which were processed under the Express Program.

For reviews of loans over \$100,000, a full analysis should be performed using business and personal financial statements, credit reports and, payment history. Standard loan covenants require borrowers and guarantors to provide annual business or personal financial statements information, as well as tax returns, within 60 days of year end or filing deadline as appropriate. It is important that lenders document the file showing the attempts to obtain this information.

To assist its participant credit unions, MBL has updated its procedure to enhance tracking and reporting of missing financial information. Each calendar quarter, a report of borrowers and guarantors will be provided to the participant credit union, listing missing information from the most recent year which is needed to perform the annual loan review. This list can be used by participant credit unions as a tool to follow up with borrowers and guarantors, or to generate request letters. Upon request, MBL may facilitate the generation of up to four request letters (previously two). The improved tracking and increased frequency of reporting is expected to improve the response rate for receiving financial information.

The updated procedure also stipulates that unless otherwise determined by the participant credit union in writing, annual loan reviews will proceed during the anniversary with or without the financial information.

## SBA BASE RATES APRIL 2013

WSJ Prime	3.25%
1-Month LIBOR Base Rate	3.20%
SBA Fixed Base Rate	4.67%

\*Effective for the first business day of April 2013

\*\*Effective for the period between April 1, 2013 to April 30, 2013.

Continued

Loans which are reviewed without current financial data will be recommended for "special mention" and likely will not score above "substandard" due to the missing financial data. If the participant credit union wishes to reevaluate a loan based on receipt of financial information after the annual review is performed, MBL will do so under the non-servicing rate structure in effect at the time the updated review is performed.

## Monthly Training Seminar

MBL will offer an online seminar on April 10, 2013. The seminar is part of MBL's free monthly seminar series and is open to all credit union business lending staff.

### MBL Reporting Services

Wednesday, April 24, 2013

2:00 – 3:00 p.m. (MDT)

Session number: 801 132 533

Session password: april24

Link

<https://mbltraining.webex.com/mbltraining/k2/j.php?AT=do wn&ED=202500642&EF=SM&UUID=496969697&SHA2=FTn7AM0xBhBVvLBIXuCbCuH7PBrKBV9E4NPdvr9vGT4%3D>

## MBL Holiday Closures

**Memorial Day**  
**May 27, 2013**

# Slowly, but Surely Economy is Growing

The SBA says that small businesses continue to show signs of economic recovery. The Administration's Office of Advocacy says that the most promising indicators are the declining number of small business bankruptcies and the growing income (operating profit) of their proprietors.

Brian Headd, economist for the SBA's Office of Advocacy said that although he doesn't have a crystal ball, small business economic indicators are getting better. "The numbers generally seem positive," observed Headd. "They haven't gone hockey stick up [trending sharply positive so the line looks like a hockey stick] but there is definitely an uptrend." Headd cautions, "It may not be as fast as we want or need."

The National Federation of Independent Business has data that supports this. Its optimism index, which polls 870 randomly sampled small business owners from its membership rolls, shows an increase in optimism in February. It is up 1.9 points from 88.9 in January. NFIB called the increased outlook "a nice improvement" but still below the low of the preceding two recessions of 1992 and 2001.

The federation thinks large Wall Street firms are largely reaping benefits of a recovery while small businesses are still hit hard. Bill Dunkelberg, NFIB chief economist, thinks that the budget squabbles of Congress aren't helping. The organization points out that three-quarters of its small-business owners think that business conditions will be the same or worse in six months.

But there are other positive indicators of the state of small businesses. NFIB's March index shows that the biggest upticks were small businesses planning to increase inventories and to make more capital.

The Office of Advocacy points out how the larger of the small firms, those between 20-499 employees, have now picked up their hiring and are driving employment. That good sign is coupled with the sobering thought that the labor market is still sluggish. Plans to hire by small business owners have only clicked up one point from January. However, small business indicators continue to click upwards.

Source: BlueMauMau, "Small Business Bankruptcies Falling, Incomes Rising", dated 3/19/2013

# Update on SBA's Loan Programs

While there are no new SBA loan programs in the works this year, Jeanne Hult, the SBA's associate administrator for capital access, said that the agency's multiyear effort to expand loan availability and streamline its loan-guarantee approval process continues. So far government-guaranteed loans have increased 6 percent, year-over-year, in fiscal 2013. That represents \$9.2 billion, an 18 percent increase over the dollars approved during the same period a year ago, and it's significant because approvals in the last two years have set SBA records.

Those records are largely attributable to provisions of the 2009 American Recovery and Reinvestment Act and the 2010 Small Business Jobs Act, Hult says. Loan approvals for fiscal 2011, which was the SBA's biggest year ever in terms of dollars, reached \$24.5 billion for its two most popular loan programs, 7(a) and 504. In fiscal 2012, the dollar amount in loan approvals for those two programs reached \$21.8 billion, the SBA's second-biggest year ever in dollar terms. "The reality is that, on conventional lending, the banks are still reluctant to do smaller dollar loans, under \$350,000, for newer businesses that are more reliant on debt and have less of a track record," Hult says. "They are still relying on SBA to be comfortable with that kind of lending."

Whether loan approvals will continue on pace for another record this year is questionable, however. It is unknown precisely what effect federal budget cuts imposed by the sequester will have. Also, a popular provision of the SBA's 504 loan program that helped entrepreneurs refinance owner-occupied real estate expired in September 2012, and Congress did not renew it. That left 400 completed loan applications, representing \$500 million in financing, on the table, Hult says, and meant that only \$2.5 billion in loan guarantees was dispersed out of the \$15 billion authorized for the program. It is possible that 504 loan volume will drop 25 to 30 percent this year without the refinance option. Senators Mary Landrieu (D-La.) and Jeanne Shaheen (D-N.H.) have proposed legislation to reinstate the refinance loan program for five years but it is unlikely to be taken up by Congress this year.

Source: Bloomberg Businessweek, "How Are the SBA's Loan Programs Doing?", dated 3/14/2013

## The MBL Mission:

"To aid, counsel, and assist our participating credit unions and the member businesses they serve"