

a substitute for sound underwriting. Prior to making SBA loans, a credit union should establish a process to properly underwrite, service, and monitor member business loans. This process may consist of internal expertise, outside service providers, or a combination of both based on appropriate due diligence reviews.

Compliance Risk

To maintain the full SBA guaranty, a credit union must comply with applicable SBA documentation, reporting, and servicing requirements. Required forms must be completed properly, monthly reports submitted timely, and appropriate steps taken to address delinquency or other changes in the repayment stream.

SBA loans are commercial loans and may qualify as member business loans. As such, federal credit unions should comply with the borrower equity, experience, and concentration requirements established in Part 723 of the NCUA Rules and Regulations. Federally insured credit unions should comply with Part 723 or similar state regulations, as required by their primary regulator.

Reputation Risk

As with other programs, officials are encouraged to carefully evaluate the potential benefits and costs associated with SBA lending when considering whether to participate in this program.

If you have any questions, please contact your NCUA Regional Office or State Supervisory Authority.

Sincerely,

/S/

Dennis Dollar
Chairman

Enclosure