

Ohio Credit Unions, League Celebrate Nearly Two Years of Success with \$25 Million in Loans Produced through Launch of Cooperative Business Services LLC

By MICHELLE A. SAMAAD
CU Times Staff Reporter
FRANKLIN, Ohio - Like

many credit unions leery about launching member business lending programs on their own, those that formed Cooperative Business Services LLC here were hoping a collaborative effort would spread the wealth and mitigate the risks.

Launched in August 2003 by seven credit unions and the Ohio Credit Union League, the CUSO recently celebrated a milestone: \$25 million in loans produced.

CBS provides underwriting, processing and servicing of loans that are referred by the owner credit unions as well as six area subscriber credit unions.

With assistance from the League, the CUSO is also attracting other credit unions that are now utilizing its lending capabilities including real estate transactions, equipment financing, working capital loans and SBA loans.

Along with the league, CBS is owned by \$154 million AurGroup Financial CU; \$120 million Chaco CU; \$65 million Code CU; \$136 million Day Air CU; \$200 million MidFirst CU; \$112 million River Valley CU; and \$1 billion Wright-Patt CU.

"The need was brought to the forefront by many of the members of the credit unions," said Keith Reed, CBS president and COO. "Once the research began in earnest, many of them, especially the smaller ones, thought it would be cost prohibitive to go at it alone."

That research started in 2001 with a task force formed by the league's OCUL Services Corporation and made up of Ohio credit union leaders, said Dave Fearing, COO. Most shared the desire to want to expand their offerings to include MBLs. From there, money was raised to initiate a business plan and conduct a feasibility study. The seven Ohio credit unions gravitated to the idea of forming a CUSO and the rest is history. CBS is headquartered in an office at MidFirst CU where Reed, along with four employees are based.

By coming together in a cooperative manner, many credit unions can pool resources on a large loan to go beyond the federal insurance cap of 12.25% of an individual credit union's assets.

For River Valley Credit Union, a SEG-based membership provided a built-in "natural market" and it has banked on that entry to amass approximately six business loans so far, said John Bowen, president/CEO. Still, it hasn't prevented

competing regional banks from swiping deals. "Quite frankly, we have lost a couple of deals to banks like National City and Fifth Third," Bowen said. "If one of the larger banks wants the loan, they can price us out of the market. We've done some deals where members have considered

Collaborative Effort Drew Credit Unions From All Walks of Life.

us and others and the banks were able to give them a better deal."

Even though several deals have been lost, the transactions have bettered its relationship with

bank because we could not service them. Now, we're able to do our share."

Earlier this year, five of CBS' owners received approval to offer SBA 7(a) loans, Reed said. AurGroup and MidFirst are in midst of that process. Burke said going forward, offering the loans will be critical.

"It's important because a lot of members are making them much more palatable. Some members would not qualify for the loan without the SBA part," Burke said.

A number of company downsizings have hit the Hamilton area hard here, which is home to Chaco CU. Others have closed shop and left the city leaving many of the credit union's members unemployed, said James Schultheiss, Chaco CU president/CEO. As a result, many members saw opportunities to open their own businesses.

"It's a very exciting opportunity for us to be able to meet their needs," Schultheiss said. "We've been able to expand our business deposit services to complete the picture."

So far, Chaco CU has done several loans under the \$100,000 mark for offices and cars totaling in the \$1 million range, Schultheiss said.



those members by keeping the banks on alert that River Valley CU has come to compete. Bowen said.

"We were one of the credit unions that were already doing business loans before the CUSO launched," Bowen pointed out. "We've been able to build business primarily with past connections with our (select employee groups)."

Within two months of CBS' launch, Day Air CU had already closed two loans, said Bill Burke, president/CEO. The credit union has since processed nearly 20 loans and continues to "produce quite a bit of volume." Each year, it aims for between 14% and 15% growth and one of its goals is to mix up its portfolio with a lean towards more commercial real estate. Just as

Size Doesn't Matter

The way CBS is structured, credit unions can become subscribers regardless of their asset size, Reed said. Subscribers pay a monthly fee and licensing fee to the CUSO and in return they get a complete "soup to nuts" business lending operation. Most of the six subscribers have been in place for more than a year with three forming alliances early on, he added.

"We don't have credit unions stepping on each other's toes," Reed said. "All have been committed to the process and they've had fairly consistent activity."

Being a municipal-based entity has meant a "small concentration" of Code CU's membership are tied to small businesses, said Scott Rutherford, president/CEO. While it is the smallest of

CBS' owners with \$65 million in assets, it recognized a need to serve that unique segment. It has about \$600,000 in business loans in its portfolio.

"We had been able to serve SEGs for years but had not solved the puzzle about serving business owners," Rutherford said.

Regardless of size, all faced the same issue, he added.

"There was the issue of having to hire someone and making sure regulatory requirements were met," Rutherford said. "We're happy

with the structure."

With \$1 billion in assets, Wright-Patt CU is the largest CBS credit union owner. From the start, it was a priority for the CUSO to have the right systems in place to underwrite MBLs,

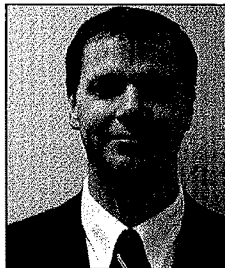
(continued on next page)



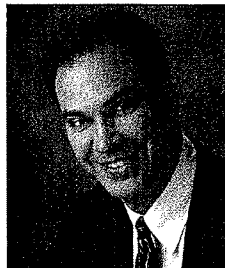
BOELLENER



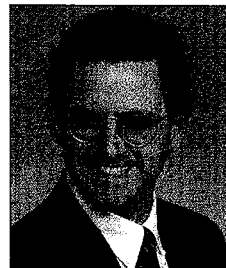
HALLER



SCHULTHEISS



REED



BURKE

important is providing service to businesses that otherwise would have been left out in the cold

"We're not going after Fortune 500 companies," Burke said. "We're going after the barbers, mechanics and dentists. In the past, we've had to tell them to take their business to a

NEWS

(continued from previous page) service them, do follow-up and annual reviews, said Doug Fecher, president/CEO. Because it is the largest and the loan participation arrangement is based on assets, Wright-Patt's piece is between \$5 million and \$6 million, Fecher said.

"It wasn't about getting a high number of loans on the books very quickly," Fecher said. "We spent a lot of time putting in place systems to originate services and do ongoing analysis of member loans."

Because a lot of behind-the-scenes work has been solidified, Fecher said it appears that this year CBS "will be in the black."

Having a solid infrastructure has made the process go better than anyone had envisioned, said Tim Boellner, president/CEO of AurGroup Financial CU.

"One of the key components was hiring the right person to run it," Boellner said. "Keith has an entrepreneurial spirit and underwriting service background and has surrounded himself with quality people."

For AurGroup, its 150 SECs as well as a significant segment of its member base who are teachers that take jobs over the summer, served as a launching pad for MBL services.

"There is certainly a need in the community here to have an alternative," Boellner said.

Even though the seven credit unions are spread out around Ohio, area banks, specifically in the Dayton area where MidFirst CU is close to, have been the leader in business lending, Reed said. But mergers have started to change the marketplace, leaving a niche to be served.

"It's been my contention that the core business members we're going after have been left behind by the banks and maybe that's been unintentional," Reed said. "We're not stepping on the banks' toes. The business model that banks are pursuing - intentional or unintentional - does not impact the small business owner we're targeting."

MidFirst CU has helped

originate almost half of the \$25 million in CBS loans produced, said Barry Haller, president/CEO. The credit union was in the early stages of launching its own MBL program having closed on two business loans roughly nine months before the CBS rollout.

"We knew that we didn't have the commercial lending expertise on staff," Haller. "We thought we could be much stronger and offer a better product to our members through a collaborative effort."

Haller has seen how banks go "in and out" of the local

market, commit for a year or so to serve small businesses and then consolidate and move into larger markets.

"A void is left," Haller said. "We're in it for the long haul."


Looking ahead, CBS' biggest commitment continues to be better service delivery and managing growth.

"We're not focused on trying to get a certain threshold of loans, we're more concerned with building our delivery channels and continuing to impact the marketplace," Reed said.

— msamaad@cutimes.com

WHEN PLANNING A WISE
INVESTMENT STRATEGY,
WE SOMETIMES FORGET TO
STOP AND ASK OURSELVES
IF WE'RE GOING IN THE
RIGHT DIRECTION.

Navigating through unpredictable market conditions requires sound strategy and precise calculations. Seeking higher ROI? Juggling your Balance Sheet? Every successful journey starts with the right direction. Who better to guide you than a credit union that specializes in investing for credit unions? At Southwest Corporate, we'll help you to reach the destination of your credit union's financial goals. Ready? Climb aboard. For more information, call 800-301-6196.

 **southwest corporate**
INVESTMENT SERVICES

Your guide to better investing.

www.swcorpinvest.com