

Straight Talk.



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Keith D. Reed
President/COO

Cooperative Business Services, LLC is pleased to present its first quarterly newsletter. Our objective is to use this as a forum for communication on best practices in business lending as well as activity and developments within the CUSO. Thank you for choosing Cooperative Business Services, LLC as your solution for providing Member Business Lending services to your members. It's our privilege to serve you and your credit union.

NEW CREDIT UNIONS TO COOPERATIVE BUSINESS SERVICES:
Members Heritage Federal Credit Union (Lexington, KY)
Ohio Valley Federal Credit Union (Batavia, OH)

Introducing

ANDY WEINGARTNER



Andy Weingartner serves as Assistant Vice President in CUSO Portfolio Management. Andy also serves as a business credit underwriter and provides support in CUSO business development initiatives. Andy is a graduate of Xavier University in Cincinnati and has a B.S. Degree in Finance.

DAISY SHAFER



Daisy K. Shafer serves as Assistant Vice President in charge of CUSO Marketing initiatives as well as company wide operational and administrative support. Daisy is a graduate of Wright State University in Fairborn, Ohio with a B.S. Degree in International Business.

Recently Funded Loans:

Video Conference Manufacturer
\$1,588,000 CRE Refinance
Conventional Financing
25 Year Amortization

CRE Development Company
\$400,000 Revolving LOC
Conventional Financing

Manufacturing Company
\$125,000 Term Loan
Conventional Financing
10 Year Amortization

Loan Servicing Reports



Are you getting the financial reports that you need? We started with seven credit unions and excel reports and almost three years later there are 22 credit unions and many more reporting capabilities. Per our servicing agreement, you should receive financial information the third business day after month end and the third business day after the 15th day of the month.

Cooperative Business Services cannot tell you how to complete your 5300 Report each quarter, but we can help. We can also try to sort data to your specifications. For example, reports can be issued by facility identification and risk rating. Also, some reports can be downloaded into excel and your credit union can format the report or just use the data. Please provide me with a "wish" list and I will see what can be done.

We are a cooperative, operated for the benefit of those using our services. Whether it is interest accruals or delinquency reports, we can help make your financial data gathering process easier. Thank you for being the best credit unions to work with.

Angela R. Kelley, CPA
Senior Vice President/Controller

The 5 C's of Credit



Any credit union that has been involved with CBS for a while and has had some credit training knows what the 2 biggest C's of Credit are – cash flow (or capacity) and collateral. These 2 items need to be there or we do not have a deal we can work with.

The first C of Credit is cash flow which refers to the company's ability to pay their debt. When we do not have adequate cash flow coverage we should all be concerned about the company's ability to make their monthly payments. As we say in commercial lending, "cash flow is king". Cash flow is our primary source of repayment. Even if a company has good intentions, if they do not have the ability to pay (or lack of cash flow coverage), then we will still have a problem with receiving our payments because the cash is just not available to make the payments.

The second C of Credit that needs to be available is collateral. In case we have a worse case scenario we need to have adequate and complete collateral coverage. Being fully secure is important, as well as, having an asset that will produce the expected value if it needs to be liquidated. Both of these items must be there to make a deal possible. An adequate position on one does not make up for an inadequate position on the other.

The other 3 C's of Credit that are important to review are character, capital, and conditions. We rely greatly on the credit union representative to let us know if they have any questions regarding the borrower's character, honesty, or trustworthiness. It is not in the credit union's or CBS's best interest to put a deal on the books for a borrower who's character is in question because this does not give us a good sense of their willingness to repay the loan. The fourth item for us to consider is the borrower's ability to raise debt. This means the company should have an acceptable portion of its assets financed by equity or owner capital, rather than having all of its assets financed by debt. Another way to look at this is "how much cash has the owner put into the company". Then the final C of Credit to consider is conditions of the economy and the industry. Trends should be evaluated along with liquidity ratios, turnover ratios, and profitability (like revenue and net income) of the company.

Together all of these factors make up the 5 C's of Credit which is a good place to start when you are deciding the viability of your loan request.

Until next time...

Chrissy Herschede
Senior Vice President/Business Lending

Wage & Salary Employment February 2006		
Industry	Employment	Percent
Total for Ohio-	5,437	100.0%
Mining-	11	0.2%
Construction-	233	4.3%
Manufacturing-	811	14.9%
Trade/Trans/Utilities-	1,045	19.2%
Information-	89	1.6%
Financial Activities-	313	5.8%
Prof/Bus Services-	645	11.9%
Education/Health-	766	14.1%
Leisure/Hospitality-	504	9.3%
Other Services-	224	4.1%
Government-	797	14.7%

*Note: Nonfarm payroll employment in thousands.
Source: Ohio Bureau of Labor Market Information.*

Ohio's Economy

Structure

Ohio's companies are technology intensive. Overall, it was found that Ohio has a 14% higher concentration of technology operations than the nation. Manufacturing is the largest of Ohio's major sectors, based on gross state product. About 67% of the state's manufacturing output consists of durable goods-compared to 58% for the nation.

The importance of durable goods to Ohio's economy can be seen in the list of the state's two largest manufacturing industries: transportation equipment and fabricated metals. The state's two leading export commodities are motor vehicles and machinery. Ohio firms ship products to 209 countries, and the state accounts for about 4.0% of the U.S. export total. Ohio merchandise exports were \$34.8 billion in 2005.

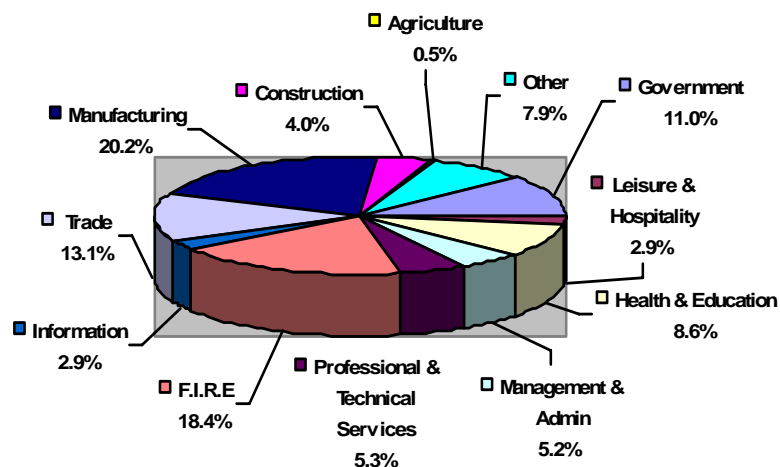
The services-producing sectors produce 75% of the state GSP and will account for virtually all job growth over the 2002-2012 period.

Economy

Ohio's economy is reflecting the slow national economy. The unemployment rate has climbed to 5.3%, seasonally adjusted, compared to the U.S. national rate of 4.8%. Total employment in Ohio is expected to increase 9.7% over the 10-year period from 2002 to 2012—a project gain of 562 thousand jobs. Personal income in Ohio grew at a 4.2% rate in 2005. The state's central location to North American Markets, its controlled business costs, and increasing diversification should support a forecasted growth rate of 4.3% in 2006 as reported by Economy.com. Ohio's per capita income currently is \$32,478.

Location

Sixty Percent of all U.S. and Canadian households lie within 600 miles of Ohio.





Put on Your Closing & Compliance Hat

** Two rules you should follow when documenting a small business loan **



Verification of Good Standing

Proper documentation of a loan starts with verifying that it is in good standing with the state they are incorporated (corporations) or organized (limited liability companies) in. Only corporations and limited liability companies are required to register in the state of incorporation/organization. Partnerships are not required unless they are structured as a limited liability (LLP). You can do this by looking up the name of the company on the appropriate secretary of state website and verifying that they are in “good standing” or “active”. If they are not registered or show up as being “cancelled” or in “bad standing”, best practice is to wait until they are back in good standing with the state before closing the loan. Often

it is an oversight by the company and they can be quickly reinstated with the proper fee and paperwork.

When verifying good standing, be careful not to mistake a fictitious/trade name for the company’s proper legal name. It is also important to note that if you have a company that is incorporated/organized in another state then where they are doing business, you should verify good standing with that state of incorporation/organization in addition to the state where they are doing business. They will-or should-appear as a “foreign” entity in that state. Example: Any Name, LLC organized in Nevada should show in good standing with the state of Nevada as a limited liability company. If this company is doing business in Ohio, they should be registered with the Ohio Secretary of State as a “Foreign Limited Liability Company”.

Sole proprietors should be documented using their legal, individual name. Legal documentation should never be created beneath a doing business as or fictitious name.

Corporate Documentation

You should obtain corporate documentation from the borrower based on the following structure:

- Corporation - Code of Regulations or By-laws
- Limited Liability Company - Operating Agreement
- Partnership - Partnership Agreement
- Trust - Trust Agreement

Also, ask for any minutes or resolutions that they may have. Use these documents to determine or verify authorized signors.

Helpful Links:

OHIO
<http://www.sos.state.oh.us/>

KENTUCKY
<http://sos.ky.gov/business/online/>

Elizabeth Shanahan
Senior Vice President/Compliance



Credit Unions APPROVED to Participate in the SBA 7(a) and Express Programs:

- Wright-Patt Credit Union, Inc.
- River Valley Credit Union
- Day Air Credit Union
- CODE Credit Union
- Chaco Credit Union
- Members First Credit Union
- Ohio University Credit Union

Credit Unions IN PROCESS of Securing Approval to Participate in the SBA 7(a) and Express Programs:

- MidFirst Credit Union
- Aurgroup Financial Credit Union
- Kemba Financial Credit Union
- Emery Federal Credit Union

TESTIMONIALS

GMD INDUSTRIES, LLC



“Our experience with Cooperative Business Services and Wright-Patt Credit Union have been, without exception, GMD Industries’ best banking relationship to date. Based on past experiences as a CPA and advisor to numerous clients, our lending requirements were executed timely and flawlessly. Day to day financial needs, both in person and via the internet, are quick and very easy.”

IMPERIAL PACKAGING CORPORATION



“Working with Cooperative Business Services exceeded our expectations. Cooperative Business Services was able to structure a long-term, cash flow based loan that dramatically improved our working capital position and eased our monthly debt obligation. Cooperative Business Services also continues to provide our company with great service as well as very competitive deposit products through CODE Credit Union that have provided additional cost savings on a daily basis.”

MEMBERS FIRST CREDIT UNION



“Members First Credit Union joined Cooperative Business Services as a subscriber in May, 2005. As a community credit union, we had begun to experience inquiries from both members and potential members in the community regarding business services. From a strategic standpoint, our Board and management staff felt that CBS, as an Ohio-based and OCUL-endorsed CUSO, presented us with the best opportunity to offer business lending services transparently to our members and potential members in the community. During our first year with CBS, by originating loans from our members, and from participating in business loans generated by other members of the CUSO, we were able to place \$500,000.00 in business loans on our books. We had originally projected that member business lending would take two years to reach a break-even point for the credit union. Thanks to our participation and origination volume, we were able to reach that break-even point just one year after joining CBS. In addition, we are extremely happy with the high level of personal service and training that we have received since becoming a CBS subscriber. I would highly recommend CBS for any credit union looking to establish a quality member business lending program.”

KEY RATES

	Current	1 Month Prior	3 Month Prior	6 Month Prior	1 Year Prior
US T-Bill 1 yr Index	5.13	4.75	4.50	4.00	3.00
US T-Bill 3 yr Index	5.04	5.07	4.77	4.37	3.28
Prime Rate	8.00	7.75	7.50	7.00	6.00
US T-Bill 5 yr Index	5.02	5.54	5.13	4.98	4.36
US T-Bill 10 yr Index	5.05	5.84	5.32		

Recently Funded SBA Loans:

Gas Station / C-Store
\$291,000 CRE Purchase
(SBA 504 Loan)
20 Year Amortization

Restaurant
\$790,000 SBA 7(a)
20 Year Amortization
Business Acquisition

Restaurant
\$633,000 CRE (SBA 504 Loan)
20 Year Amortization
\$179,000 Business Acquisition
(SBA 7a Loan)
10 Year Amortization



There are a number of advantages in being able to provide an SBA loan to your members. Credit Unions were granted access to the Small Business Administration (SBA) 7a Programs nearly two years ago. In today's competitive lending environment, it is important that we utilize all of the tools available to assist our members with commercial business lending needs.

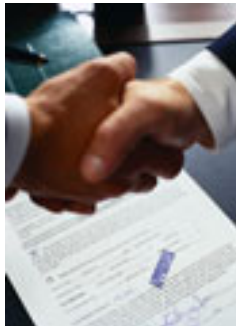
A great example of this is providing an SBA 7a loan to your member. There are numerous advantages to the SBA loan, including longer terms, no prepayment penalties for loan terms less than 15 years, and no balloon payments. Most for-profit small businesses are eligible for an SBA guaranteed loan. This includes manufacturers, wholesale, retail and service businesses as well as independent medical professionals and franchise businesses.

The SBA 7a program allows you as the lender to offer:

- Up to 25 year amortization
- Up to 90% loan to value
- Up to 85% guaranty from SBA for loans less than \$150,000
- Up to 75% guaranty from SBA for loans greater than \$150,000
- Purchase owner-occupied or owner-user properties
- Provide working capital, inventory, equipment, machinery financing

If your Credit Union is not offering the SBA program, contact me today to find out how you can get started.

Lorain Cooper
Vice President/Business Development & SBA Lending



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Our sincerest thanks to everyone who contributed ideas, stories, or pictures for this issue.



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