

# NCUA News

October 2003 Number 5

## Chairman Dollar urges state regulators to join NCUA in monitoring mortgage risk

NCUA Chairman Dennis Dollar told state credit union regulators in Vail, Colo., Sept. 7, 2003, that early signs of an upward trend in mortgage interest rates provide a risk management challenge for credit unions, and he encouraged state regulators to join NCUA in monitoring risk exposure and promoting due diligence in managing first mortgage portfolios.

“The current interest rate environment, combined with recent trends in assets and liabilities, present unique challenges to credit union management,” Dollar told the National Association of State Credit Union Supervisors.

“Interest rates have fallen to 45-year lows, credit unions have experienced vigorous share growth for several years and their participation in the mortgage lending arena has increased to historic

highs. As mortgage rates begin to inch upward, this degree of concentration in fixed, lower-rate first mortgage rates can provide a risk management challenge requiring due diligence by credit union management.”

Dollar called upon the state regulators to work with NCUA to monitor risks inherent in a changing interest rate environment.

“NCUA does not prescribe a fixed maximum percentage of mortgage loans be applicable to all credit unions,” Dollar said. “However, in keeping with the purpose of the risk-focused examination process, NCUA will focus particular attention on the risk management processes utilized by those institutions with higher concentrations of fixed rate mortgages to measure and forecast their balance sheet risk.

### HIGHLIGHTS

News briefs	2
Grants available	2
Managing mortgage lending risks	2
Board actions	3
Conversations with America	4
Understanding share insurance protection	5
MBL workshop filled	5
NCUA offers 1 percent loans	6
MBL rule change details	(pullout)



*Sept. 26, 2003, Alex., Va. – NCUA Chairman Dennis Dollar and executive staff meet with Dr. Louis Sullivan, Chairman of the President’s Board of Advisors on Historically Black Colleges and Universities (HBCU) to discuss the opportunities for credit union service and student recruitment at HBCUs.*

“The issue is not one of risk avoidance but one of proper risk management. Long-term implications on the earnings and net worth of the credit union must be properly addressed in policies and procedures,” he said. “The sophistication of a credit union’s risk management practices must be commensurate with the level of risk on the credit union’s balance sheet.

“Credit unions are excellent risk managers, and their strong financial position underscores this fact. Still, when rates begin to turn after a long period of stability, there are risk management issues which are incumbent upon us as regulators and supervisors to emphasize,” Dollar said. He also announced a forthcoming letter to credit unions on risk management. (A summary of the mortgage risk management letter to credit unions is on page 2.)

## News briefs

**Paperwork reduction contact named** – NCUA's Neil McNamara is the contact for small federal credit unions that may have questions, complaints or concerns regarding NCUA paperwork requirements. McNamara can be reached by telephone at 703-518-6570 and by e-mail at [mcnamara@ncua.gov](mailto:mcnamara@ncua.gov).

**NCUSIF reserves increased** – \$4.1 million was added to NCUSIF reserves for potential losses in August based on expected losses.

**NCUSIF equity level** – The equity level of the NCUSIF was 1.22 percent August 31, 2003, based on June 30 insured shares of \$475 billion.

**Credit union failures** – Through August, seven credit unions failed in 2003. Two merged with assistance and five were involuntary liquidations. Losses YTD total \$3.9 million.

**ABA vs. NCUA lawsuit** – NCUA has answered charges filed by the American Banker Association challenging the community charter expansion granted to Tooele FCU and subsequent approvals for the same community field of membership. NCUA expects the U.S. District Court judge will next ask the plaintiffs to file an explanatory brief. NCUA would then respond and a court date to hear oral arguments will eventually be set. A court date is not expected until next year.

## Grants available to offer free tax preparation assistance

Low-income designated credit unions that take part in the 2003-2004 Internal Revenue Service's (IRS) Volunteer Tax Assistance (VITA) program are eligible for up to \$4,000 to help offset administrative costs thanks to an NCUA Access Across America initiative and IRS partnership designed to enhance credit union outreach to members and their families.

The VITA program provides free tax preparation services and free electronic filing for credit union members and families. Plus, the IRS uses VITA to increase awareness of the Earned Income Tax Credit, which eases the tax burden for qualifying low-income earners. Over 150 credit unions are currently preparing to

provide members with tax preparation assistance through the IRS VITA program.

NCUA hopes to encourage many more low-income credit unions to take advantage of this opportunity to offer hands-on assistance and financial education that can benefit members' asset-building opportunities by providing funding through the Community Development Revolving Loan Fund's technical assistance grant program.

Please contact the IRS at [www.irs.gov](http://www.irs.gov) for more information about participating in the VITA program. For more information about funding for this technical assistance grant program, visit the NCUA Web site at [www.ncua.gov/org/orchart/ocud/programs.html](http://www.ncua.gov/org/orchart/ocud/programs.html).



## NATIONAL CREDIT UNION ADMINISTRATION NCUA News

NCUA News is published by the National Credit Union Administration, the federal agency which supervises and insures credit unions.

**Dennis Dollar, Chairman**  
**JoAnn Johnson, Vice Chair**  
**Deborah Matz, Board Member**

Information about NCUA and its services may be secured by contacting the Office of Public and Congressional Affairs, at 703-518-6330. The weekly Treasury-bill rates are available by calling 800-755-1030 or 703-518-6339.

Clifford Northup, *Director,*  
*Office of Public and Congressional Affairs*  
Cherie Umbel, *Editor*  
Barbara Walker, *Graphics*

National Credit Union Administration  
1775 Duke Street  
Alexandria, VA 22314-3428

## Managing mortgage lending risks

*NCUA Letter to Credit Unions No. 03-CU-15*, issued in September, provides federally insured credit unions with vital information about managing risk when carrying large positions in fixed-rate mortgage portfolios. In keeping with the risk-focused examination process, this letter reinforces NCUA's focus on ensuring credit unions with concentrations in fixed-rate mortgages use effective risk management.

The current interest rate environment offers credit unions unique member service opportunities; however, NCUA cautions credit unions to avoid a strategy of

"wait-and-see" on interest rates. Based on history, the market will experience accelerated activity when interest rates begin to increase. How high and how fast rates increase is uncontrollable and losses can quickly accumulate when rates rapidly increase and reducing risk becomes considerably more costly. Given this possibility, credit unions must be adequately and properly prepared to incur the expense of necessary risk reduction.

Effective risk management requires long-term earnings and net worth implications be addressed. Credit unions must follow the standard and prudent steps of identifying, measuring, monitoring and controlling their interest rate risk exposures, items thoroughly discussed in *Letter to Credit Unions 03-CU-15*.

## Board Actions September 24, 2003

### Member business loan rule enhanced

The NCUA Board approved a final rule amending Part 723, the member business loan (MBL) regulation to provide greater flexibility for credit unions to meet the business loan needs of their members within statutory limits and safety and soundness parameters.

Effective October 31, 2003, the revised Part 723 member business lending rule:

- Adopts the new term “net member business loan balance” to accurately identify what constitutes a member business loan for various purposes under the rule.
- Amends construction and development loan equity requirements to require 25 percent borrower equity.
- Authorizes “RegFlex” (highly capitalized) designated credit unions to establish individual policies regarding whether to require personal guarantees by principals and the amount of such guarantees.
- Authorizes well-capitalized credit unions to make unsecured member business loans within certain regulatory limits and restrictions.
- Provides that purchases of nonmember loans and nonmember participation interests do not count against a credit union’s aggregate MBL limit, subject to an application and approval process that will include safety and soundness reviews and is designed to prevent loan swapping to avoid statutory and regulatory requirements.
- Allows 100 percent financing for business purpose loans on certain vehicles.
- Provides that loans directly to other credit unions and credit union service organizations (CUSOs) are not classified as member business loans for purposes of the rule.
- Clarifies and streamlines member business loan documentation requirements.

- Amends the prompt corrective action (PCA) rule regarding the risk weighting of member business loans.
- Authorizes federal credit union investment, subject to applicable regulatory restrictions, in CUSOs that originate business loans.

A detailed pullout explaining changes to the member business lending rule is included in this newsletter and the full statements of Vice Chair Johnson and Board Member Matz are available on the Internet at [www.ncua.gov](http://www.ncua.gov).

### Amendments recommended for mutual savings bank conversion requirements

The NCUA Board issued proposed amendments to Part 708a, with a 60-day comment period, requiring credit unions that wish to convert to mutual savings bank to provide members with additional disclosures which include:

- Disclose that conversion from a credit union to a mutual savings bank could lead to members losing their ownership interests in the credit union if the mutual savings bank subsequently converts to a stock institution and the members do not become stockholders;
- Disclose that the conversion from a credit union to a mutual savings bank could lead to members having fewer voting rights than they had in the credit union; and
- Disclose any economic benefit a director or senior management official may receive, including receipt of or increase in compensation and any foreseeable stock related benefits associated with subsequent conversion to a stock institution.

### Maximum borrowing authority and surety and guaranty rules proposed

NCUA issued a proposed change to §741.2 of the regulations to permit federally insured, state-chartered credit unions (FISCUs) to apply for a waiver from the

maximum borrowing limitation of 50 percent of paid-in and unimpaired capital and surplus. The amendment would provide FISCUs more flexibility by allowing them to apply for a waiver up to the amount permitted under state law. For federal credit unions, the 50 percent borrowing limit is statutory and therefore a waiver is not possible.

Issued with a 60-day comment period, the proposal also adds a provision to NCUA’s regulations that allows a federal credit union (FCU) to act as a surety or guarantor on behalf of its members. The proposal establishes certain requirements to ensure that FCUs and FISCUs, permitted under state law to act as a surety or guarantor, are not exposed to undue risk.

### Charter conversions

The NCUA Board approved the conversion of \$281 million **ABNB FCU**, Virginia Beach, Va., to convert from a multiple group to a community charter to serve the people who live, work, worship, volunteer, or go to school in, and businesses and other legal entities in the recognized southeastern Virginia community (SVC) which includes the Isle of Wight and Southampton Counties. The SVC includes the cities of Franklin, Chesapeake, Norfolk, Portsmouth, Suffolk, and Virginia Beach, Va., and includes a population of 1,078,642 according to the 2000 census.

The NCUA Board approved the conversion of \$1.7 billion **Bethpage Federal Credit Union**, Bethpage, N.Y., from a multiple common bond to a community charter to serve the 2.7 million people who live, work, worship, or attend school in and businesses and other legal entities located in Nassau County, N.Y., or the following portions of Suffolk County, N.Y. -- Town of Huntington, Town of Babylon, Town of Smithtown, Town of Islip, Town of Brookhaven, the Poospatuck Reservation, Town of Riverhead and Town of Southold.

**Votes are unanimous unless otherwise indicated.**

## Conversations with AMERICA



### My Government Listens

**Who and What:** Vice Chair JoAnn Johnson will address the Association of Corporate Credit Unions 8th Annual Meeting.

**When:** Monday, Oct. 13, 2003

**Where:** New Orleans, La.

**Why:** Vice Chair Johnson will share her insight into credit unions and the future direction of NCUA.

**Contact:** Heather Graham at 703-518-6309 or [hgraham@ncua.gov](mailto:hgraham@ncua.gov).

**Who and What:** Board Member Deborah Matz will participate in a press conference with the New Hampshire Credit Union League and New Hampshire credit unions.

**When:** 10 a.m., Oct. 14, 2003

**Where:** Credit Union Museum, Manchester, N.H.

**Why:** Board Member Matz will recognize New Hampshire credit unions for their \$35 million commitment to housing and community projects.

**Contact:** Patty Jenkins at 703-518-6318 or [pjenkins@ncua.gov](mailto:pjenkins@ncua.gov)

**Who and What:** Chairman Dennis Dollar will speak at the National Association of Community Credit Unions.

**When:** 9 a.m., Wed., Oct. 15, 2003

**Where:** Williamsburg Lodge, Williamsburg, Va.

**Why:** Participant feedback will be solicited and considered on NCUA initiatives and policies. Q & A with participants is scheduled.

**Contact:** Nicholas Owens at 703-518-6336 or [nowens@ncua.gov](mailto:nowens@ncua.gov).

**Who and What:** Board Member Deborah Matz and Vice Chair JoAnn Johnson will co-host a Partnering and Leadership Successes (PALS) workshop on member business lending with CUNA and the Maryland, Pennsylvania, Virginia and D.C. Credit Union Leagues.

**When:** 8 a.m., Oct. 16, 2003

**Where:** The Wyndham Hotel, 1400 M St. NW, Washington, D.C.

**Why:** Credit unions will learn from their peers how to establish successful business lending programs, minimize risk and comply with new regulations.

**Contact:** Patty Jenkins at 703-518-6318 or [pjenkins@ncua.gov](mailto:pjenkins@ncua.gov).

**Who and What:** Chairman Dennis Dollar will speak at the National Federation of Community Development Credit Unions' Financial Literacy Day in New York.

**When:** 11:15 a.m., Friday, Oct. 17, 2003

**Where:** St. Mark's Federal Credit Union, St. Mark's Church, 55 Edgecombe Avenue, New York, N.Y.

**Why:** Participant feedback will be solicited and considered on NCUA initiatives and policies.

**Contact:** Nicholas Owens at 703-518-6336 or [nowens@ncua.gov](mailto:nowens@ncua.gov).

**Who and What:** Board Member Deborah Matz will speak at Mid-States Corporate Federal Credit Union's Economic Forum.

**When:** 9:45 a.m., Oct. 17, 2003

**Where:** Westin Hotel, Indianapolis, Ind.

**Why:** Board Member Matz will speak about risks facing credit unions in the current economy.

**Contact:** Patty Jenkins at 703-518-6318 or [pjenkins@ncua.gov](mailto:pjenkins@ncua.gov).

**Who and What:** Vice Chair JoAnn Johnson will address the 54th Annual Fall Conference of the National Credit Union Management Association.

**When:** Sunday, Oct. 26, 2003

**Where:** Kauai, Hawaii

**Why:** Vice Chair Johnson will share her insight into credit unions and the future direction of NCUA.

**Contact:** Heather Graham at 703-518-6309 or [hgraham@ncua.gov](mailto:hgraham@ncua.gov)

**Who and What:** Vice Chair JoAnn Johnson will address the Hawaii Credit Union League Small Business Seminar.

**When:** Tuesday, Oct. 28, 2003

**Where:** Honolulu, Hawaii

**Why:** Vice Chair Johnson will share her insight into credit unions and the future direction of NCUA.

**Contact:** Heather Graham at 703-518-6309 or [hgraham@ncua.gov](mailto:hgraham@ncua.gov).



**Sept. 5, 2003, Alex., Va.** – Board Member Matz visits with CUNA's Small Credit Union Committee at the National Credit Union Administration. From the left are Mary Shipe (vice chair), CEO, Alhambra Credit Union; Janet Harris, CEO, Riverside Health Systems Employees Credit Union; Ralph Goodwin, CEO, Old West Federal Credit Union; Vicki Nelson, CEO, Burlington Co-op Federal Credit Union; Board Member Deborah Matz; Janet Honse (chair), CEO, Rolla Federal Credit Union; Mike Schenk, VP Economics & Statistics, CUNA & Affiliates; Joe Gonzalez, CEO, Health Services Credit Union; Sally Edwards, CEO, Zion United Credit Union; Patricia Wagner, CEO, New World Federal Credit Union; Reta Kahley, President, Arkansas Credit Union League; Liz Whitehead, NCUA Region I Associate RD; Jill Tomlin, VP, Center for Professional Development, CUNA & Affiliates.



## Helping members understand share insurance protection

It is sometimes difficult to answer questions about share insurance protection and to determine if members' share accounts are fully insured. In response, NCUA has several tools to help you understand how share insurance works and to enable you to help members structure their credit union accounts to receive maximum insurance coverage.

These tools include Your Insured Funds, a booklet published by NCUA to provide an explanation of the share insurance program. Written in question and answer format, Your Insured Funds includes dozens of real-life examples of account structures and balances illustrating how share insurance coverage works in practical situations.

NCUA also offers Benefits of Federal Share Insurance Protection, a single page, simplified explanation of federal credit union share insurance protection that also lists examples of coverage protection.

### New tool offers information and calculates coverage

NCUA also recently posted the electronic Share Insurance Estimator to its Web site, [www.ncua.gov](http://www.ncua.gov). In addition to being an excellent educational tool, the Estimator also gives you and your members the ability to input ac-

tual account information to estimate share insurance coverage for most basic accounts. And there is no need for privacy concerns. Input information ceases to exist once a member exits the Estimator, and it is not used for information gathering purposes. Members may choose to input information anonymously.

In addition to these tools, NCUA routinely reviews its share insurance rules with an eye toward simplifying them. Proposed and final rules are posted on NCUA's Web site and the agency promotes public comment on all proposed rule changes.

NCUA encourages insured credit unions to use all these tools to be informed and better able to assist and address member questions about share insurance protection. To provide additional support, NCUA is available to answer share insurance questions from credit unions and their members.

Credit unions can download Benefits of Federal Share Insurance Protection and the Your Insured Funds brochure from NCUA's Web site [http://www.ncua.gov/ref/insured\\_funds/funds.htm](http://www.ncua.gov/ref/insured_funds/funds.htm), or purchase the brochure in bulk – 50 for \$14 – by contacting NCUA Publications, 1775 Duke Street, Alexandria, VA 22314-3428, or by telephone at 703-518-6340.

Check out NCUA's new  
**Share Insurance  
Estimator** accessible at  
[www.ncua.gov](http://www.ncua.gov).



Are your funds insured? Click the NCUA sign to calculate your coverage and learn more about insurance protection.



## It's standing room only at the MBL workshop

Registration closed early with the maximum 180 participants registered for the upcoming PALS (Partnering and Leadership Successes) workshop on member business lending that Board Member Deborah Matz and Vice Chair JoAnn Johnson are hosting Oct. 16 in Washington, D.C.



Less than a month after the NCUA Board adopted a new member business lending regulation, this PALS workshop will help credit unions share ideas from successful business loan programs. Credit unions will also learn the legal requirements and explore partnership opportunities. While it's not for every credit union, the workshop will explain how member business lending can diversify membership and strengthen loan portfolios.

This third PALS workshop will provide a Member Business Lending Toolbox, similar to the Latino Connection Kit. The MBL Toolbox will feature credit union leaders' ideas on how to design business loan programs that serve members, minimize risk and remain in compliance with NCUA regulations. The MBL Toolbox will be posted on the PALS Web site [http://www.ncua.gov/org/ncua\\_board/PALS/Index.htm](http://www.ncua.gov/org/ncua_board/PALS/Index.htm).

Co-sponsors are the Credit Union National Association and the Maryland, Pennsylvania, Virginia and District of Columbia Credit Union Leagues. Representing various size credit unions from across the country, over half the attendees are from the local credit union community.

PALS is part of NCUA's Access Across America program designed to create economic empowerment through expanded credit union service in underserved neighborhoods and communities. PALS workshops encourage credit unions to share Best Practices to attract new members and expand their services.



Sept. 25, 2003, Alex., Va. – Vice Chair Johnson meets with the Hike the Hill delegation from Idaho at NCUA.

## NCUA offers 1 percent loans

Low-income designated credit unions can borrow up to \$300,000 at 1 percent interest for five years to fund programs that expand and stimulate service and assist your credit union, members and communities.

A few ideas of how to use the money include:

#### Member Outreach Initiatives

- Mobile branches
- Community centers

#### Member Consumer Loan Programs

- Non-conforming mortgages through

#### NeighborWorks® organizations

- Risk-based loans
- Salary advance loans

#### Member Business Loan Programs

- Microenterprise loans
- Participation loans
- SBA-guaranteed loans

#### Financial Education Programs

- Financial literacy lessons in CUs, schools, community centers, rehab centers...
- Student branches

#### Credit Union Cooperation Initiatives

- Shared service facilities
- Forming jointly owned CUSOs

These ideas, submitted from NCUA's PALS Best Practices program under the auspices of the agency's Access Across America initiative, only scratch the surface of innovative techniques credit unions are using today to enhance, expand and improve the lives of their members and the communities they serve.

Find information about securing a loan through NCUA's Community Development Revolving Loan Fund Program at [www.ncua.gov/org/orgchart/ocud/programs.html](http://www.ncua.gov/org/orgchart/ocud/programs.html), or contact your NCUA regional office or the Office of Credit Union Development at 703-518-6610.



### Coming Soon

The PALS Web site [www.ncua.gov/org/ncua\\_board/PALS/Index.htm](http://www.ncua.gov/org/ncua_board/PALS/Index.htm) will soon expand to feature Best Practices, actual programs credit unions are using to improve service and attract new members. Best Practices will include program descriptions, contact names and phone numbers to assist other credit unions in implementing similar programs.

## 2004 NCUA Board meeting schedule

The NCUA Board is scheduled to meet at 10 a.m. the third, fourth or fifth Thursday of each month except August on the following dates in 2004:

- January 22
- February 19
- March 18
- April 15
- May 20
- June 24
- July 22
- September 23
- October 21
- November 18
- December 16

Credit union officials, trade groups, media and the general public are invited to attend open meetings of the NCUA Board to witness the discussion and decision-making process that affects the vast majority of the nation's credit unions and NCUA operations.

NATIONAL CREDIT UNION ADMINISTRATION

# NCUA News

National Credit Union  
Administration  
1775 Duke Street  
Alexandria, VA 22314-3428

PRESORTED  
FIRST CLASS MAIL  
POSTAGE AND FEES PAID  
NCUA  
PERMIT No. G-88

# NCUA Adopts Member Business Loan Rule Changes September 24, 2003

Former requirements	Final changes adopted
<p><b>§702.106</b></p> <p>For PCA, the standard risk-based net worth (RBNW) requirement divides the member business loan (MBL) portfolio by a single threshold 12.25% of total assets. The amount of MBLs less than or equal to the 12.25% threshold is risk-weighted at 6%; the amount in excess of the threshold is risk-weighted at 14%.</p>	<p><b>§702.106</b></p> <p>The RBNW component for MBLs is expanded to three tiers.  <b>Tier 1:</b> MBLs at or below 15% of total assets are risk-weighted at 6%.  <b>Tier 2:</b> MBLs from 15 to 25% of total assets are risk-weighted at 8%.  <b>Tier 3:</b> MBLs exceeding 25% of total assets are risk-weighted at 14%.</p>
<p><b>§§704.7 and 704.11</b></p> <p>Corporate credit union loans to corporate credit union service organizations (CUSOs) are subject to the MBL rule's aggregate loan limit of 12.25% of total assets.</p>	<p><b>§§704.7 and 704.11</b></p> <p>Corporate credit union loans to corporate CUSOs are not subject to the MBL rule aggregate loan limit.</p>
<p><b>§712.5</b></p> <p>Not addressed in the previous rule.</p>	<p><b>§712.5</b></p> <p>Federal credit unions may invest in CUSOs that engage in business loan origination.</p>
<p><b>§723.1</b></p> <p>Not addressed in the previous rule.</p>	<p><b>§723.1</b></p> <p>Loans from federal credit unions to other credit unions and CUSOs are specifically authorized under the Federal Credit Union Act and are not MBLs. State charters are treated likewise, provided SSA determines that state law grants similar authority.</p>
<p><b>§723.1</b></p> <p>Not addressed in the previous rule.</p>	<p><b>§723.1</b></p> <p>Purchased member business purpose loans (if authorized under state law or 12 CFR Part 742 for RegFlex credit unions) and member loan participations are MBLs for all purposes, including PCA.</p> <p>Purchased nonmember business purpose loans and nonmember loan participations must comply with the MBL rule for compliance/due diligence purposes and must be risk-weighted like MBLs under the PCA rule but are not counted against the credit union's aggregate MBL limit, subject to the application and approval process under §723.16.</p>
<p><b>§723.3</b></p> <p>The aggregate of all construction and development loans must not exceed 15% of a credit union's net worth.</p>	<p><b>§723.3</b></p> <p>The aggregate limit remains 15% of net worth but a credit union may exclude loans made to homebuilders if they have a contract with a prospective homeowner, plus one speculative loan for the construction of a single-family residence.</p>
<p><b>§723.3</b></p> <p>Borrowers must have 35% equity interest in a construction or development project before obtaining a MBL for the project.</p>	<p><b>§723.3</b></p> <p>Borrowers must have 25% equity interest for a construction and development loan except if the borrower is a homebuilder that has a contract with a prospective homeowner or is obtaining one speculative loan for the construction of a single-family residence. The homebuilder must then meet the standard loan-to-value requirements of the MBL rule.</p>
<p><b>§723.5</b></p> <p>Credit unions must use the services of an individual, whether the individual is an employee or third-party contractor, with lending experience directly related to the type of MBLs the credit union offers.</p>	<p><b>§723.5</b></p> <p>The individual must understand the complexity and risk exposure of MBLs. The third party may not have an interest in the transaction or the collateral securing the loan, except when:</p> <ol style="list-style-type: none"> <li>1) third party provides related services, i.e. loan servicing</li> <li>2) third party buys a loan or a participation interest in the loan in which the third party provided its expertise during the origination.</li> <li>3) third party is a CUSO in which a credit union owns a controlling financial interest under GAAP.</li> </ol>

Former requirements	Final changes adopted
<p><b>§723.6</b></p> <p>A credit union's MBL policy must require the following loan documentation (in addition to analysis of the borrower's ability to repay the loan): periodic financial statements, balance sheet, cash flow analysis, income statement, tax data, analysis of leveraging and a comparison with the industry average.</p>	<p><b>§723.6</b></p> <p>MBL policies must require analysis and documentation of the borrower's ability to repay the loan consistent with appropriate underwriting and due diligence standards.</p>
<p><b>§723.1</b></p> <p>Not addressed in the previous rule.</p>	<p><b>§723.1</b></p> <p>Loans from federal credit unions to other credit unions and CUSOs are specifically authorized under the Federal Credit Union Act and are not MBLs. State charters are treated likewise, provided SSA determines that state law grants similar authority.</p>
<p><b>§723.7</b></p> <p>All MBLs must be secured, except credit card lines of credit.</p>	<p><b>§723.7</b></p> <p>A credit union may make unsecured loans if:</p> <ol style="list-style-type: none"> <li>1) it is well-capitalized;</li> <li>2) the aggregate of all unsecured loans to one borrower does not exceed the lesser of \$100,000 or 2.5% of net worth; and</li> <li>3) the aggregate of all unsecured loans made by the credit union does not exceed 10% of net worth. The credit union may also seek aggregate limit waivers from the regional office.</li> </ol>
<p><b>§723.7</b></p> <p>All MBLs must be secured, except credit card lines of credit.</p>	<p><b>§723.7</b></p> <p>A credit union is not required to comply with the rule's loan-to-value requirements if the vehicle is a car, van, pick-up or sports utility vehicle.</p>
<p><b>§723.7</b></p> <p>Principals, other than not-for-profit organizations, must provide their personal liability and guarantee for MBLs. Credit unions may seek a waiver from this provision.</p>	<p><b>§723.7</b></p> <p>Personal guarantees are required except for RegFlex designated credit unions. Credit unions may seek a waiver from this provision.</p>
<p><b>§§723.14 and 723.15</b></p> <p>These sections explain how a credit union classifies loans to reserve for potential losses and sets the minimum amounts that must be reserved per classification.</p>	<p><b>§§723.14 and 723.15</b></p> <p>These sections are deleted because <i>Interpretive Ruling and Policy Statement 02-3</i>, issued last year, supercedes them.</p>
<p><b>§723.16</b></p> <p>The aggregate limit on a credit union's outstanding member business loans (including unfunded commitments) is the lesser of 1.75 times the credit union's net worth or 12.25% of the credit union's total assets . . . Loans that are exempt from the definition of member business loans are not counted for the purpose of the aggregate loan limit.</p>	<p><b>§723.16</b></p> <p>The aggregate limit on a credit union's net member business loan balance is the lesser of 1.75 times the credit union's net worth or 12.25% of the credit union's total assets....</p> <p>If a credit union holds nonmember loans or nonmember loan participation interests, the total of the credit union's net MBL balance and the nonmember loan balance may not result in an amount in excess of the credit union's aggregate limit on MBLs unless a regional director (RD) approves a credit union's application. (FISCUs must submit applications to their SSA for approval. Once approved, the SSA forwards the application and its approval to the RD for approval.) RDs will issue a decision within 30 days.</p>
<p><b>§723.21</b></p> <p>Not addressed in the previous rule.</p>	<p><b>§723.21</b></p> <p><i>Net Member Business Loan Balance</i> means the outstanding loan balance plus any unfunded commitments, reduced by any portion of the loan that is secured by shares in the credit union, or by shares or deposits in other financial institutions, or by a lien in the member's primary residence, or insured or guaranteed by any agency of the federal government, a state or any political subdivision of such state, or subject to an advance commitment to purchase by any agency of the federal government, a state or any political subdivision of such state, or sold as a participation interest without recourse and qualifying for true sales accounting under generally accepted accounting principles.</p>