

May 22, 1996

Kari Greathouse
Missouri Credit Union System
55 Craigshire Drive
St. Louis, MO 63146

Re: Staff Experience Requirement for Business Loans
(Your April 22, 1996, Letter)

Dear Ms. Greathouse:

You have asked whether a credit union can make and retain business loans if the credit union does not have any staff experienced in business lending but instead contracts with an experienced third party to assist the credit union in reviewing and making business loans. This type of business lending practice is permissible.

Section 701.21(h)(2)(i)(F) of NCUA's Regulations requires that a credit union's written member business loan policies address the "[q]ualifications and experience of personnel involved in making and administering business loans with a minimum of 2 years direct experience with this type of lending." The preamble to this regulation, 56 Fed.Reg. 48421, 48423 (Sept. 25, 1991), also addresses this requirement and states in part that the regulation:

. . . . requires that the board of directors establish qualification requirements for personnel. This section has been revised to require at least 2 years direct experience of personnel involved in making and administering business loans. Although 14 commenters objected to this requirement, the Board remains convinced that minimum experience requirements are necessary. The responsibility of determining the criteria to be used to establish the minimum qualifications rests with the board of directors.

The intent of this section is to ensure that each type of credit offered is properly underwritten and administered. For example, the lending process involved with commercial real estate differs significantly from that of lending for business inventory or equipment. In this example, a credit union involved in both types of business lending would be required to establish qualified personnel for each type [of] credit. In some cases, this may require that more than one individual be used. Credit unions are not required to hire staff but must ensure that the expertise is available, as necessary, to meet the requirements of this section. This could be met, for example, by hiring contract assistance on a case-by-case basis.

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Neither the member business loan regulation nor its preamble specify what type of controls the

credit union must maintain over this third party. You may wish to contact the regional office to discuss what type of internal controls would be appropriate for a credit union engaging in business lending in this fashion.

Sincerely,

Richard S. Schulman
Associate General Counsel

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SSIC 3501
96-0440