

**DATE:** November 16, 2020  
**BULLETIN:** 2020-KDCU-CUB-23  
**TO:** Kansas Chartered Credit Unions  
**SUBJECT:** Commercial Lending

### COMMERCIAL LENDING

During recent exams, Kansas Department of Credit Unions (KDCU) examiners have found inadequate and/or non-existent commercial lending policies and procedures. NCUA Rules and Regulations [Part 723](#) addresses Member Business Loans and Commercial Lending.

Before a credit union implements a commercial lending program, the board of directors must approve a commercial loan policy that complies with §723.4 and must review the policy on an annual basis. The policy must also be reviewed prior to a material change in the program and in response to any material change in performance or economic conditions.

Equally important is the requirement for the board to understand and remain informed through periodic briefings from responsible staff about the nature and level of risk in the commercial loan portfolio, including its impact on the credit union's earnings and net worth.

Staff responsible for the commercial lending portfolio should have experience in (1) underwriting commercial lending; (2) overseeing and evaluating the performance of a commercial loan portfolio; and (3) collection and loss mitigation activity. Experience may be gained by providing training and development, hiring qualified individuals or using a third party. However, the third party must have no affiliation with the borrower, the actual decision to grant the loan must remain with the credit union and qualified staff exercises oversight over the third party through regular evaluations.

Examples of violations include:

- Accepting applications and granting commercial loans without a commercial loan policy in place;
- Staff failing to follow the commercial loan policy adopted by the board;
- Failing to have supporting documentation in the loan file; and
- Failing to verify ownership and collateral value.

Commercial loans can be valuable credit union products and services; however, it is important to have a policy in place and for staff to follow the policy. This protects both the member and the membership from high delinquencies and losses, leading to a decline in earnings and/or net worth.

**NOTE:** In accordance with Governor Laura Kelly's [Executive Orders](#), KDCU Administrator Jerel Wright continues to review the feasibility of resuming the on-site examination program. This is being done in coordination with the NCUA.