



LIMITATIONS ON CREDIT UNION MEMBER BUSINESS LENDING COMPARED TO THE COMMERCIAL LOAN POWERS OF NATIONAL BANKS

LIMITATIONS	CREDIT UNIONS ¹	NATIONAL BANKS ²
Limits on Net Worth and Total Assets	A federally insured credit union's member business lending (MBL) on loans above \$50,000 is restricted. Such lending generally may not exceed the lesser of 1.75% of its net worth or 12.25% of total assets. ³ 12 U.S.C. § 1757a; 12 C.F.R. §723.16(a).	National banks face no such specific restrictions on commercial loans. 12 U.S.C. §24; 12 C.F.R. part 32.
Restriction on Loan Borrowers	Credit unions may only make MBLs to borrowers identified in the credit union's specific field of membership or geographic area, and may not make MBLs to the CEO and other executive officers, or to any associated member or immediate family member of any such officer. 12 C.F.R. § 701.1; 12 C.F.R. § 723.2.	National banks face no such restrictions on their borrowers; they can make commercial loans to anyone from the general public. Also, national banks may make loans to their executive officers, directors, and principal shareholders. 12 C.F.R. part 215.
Personal Liability and Guarantee Requirement	Credit union MBLs generally require the personal liability and guarantee of the principal. 12 C.F.R. § 723.7.	National banks do not have a personal liability and guarantee requirement on commercial loans.
Restriction on New MBLs	Credit unions that are classified as "undercapitalized" with a net worth ratio of 6% or lower may not make new MBLs. 12 C.F.R. § 702.202.	National banks do not have a similar mandatory, regulatory requirement. 12 C.F.R § 6.
Specific Collateral Requirements	<p>Credit union MBLs generally must meet specific regulatory collateral requirements. 12 C.F.R. § 723.7.</p> <ul style="list-style-type: none"> • The maximum loan-to-value (LTV) ratio for all liens may not exceed 80% unless the value in excess of 80% is covered through private mortgage insurance or equivalent type of insurance, or insured, guaranteed, or subject to advance commitment to purchase by an agency of the federal government, an agency of a state or any of its political subdivisions, but in no case may the ratio exceed 95%; • A borrower may not substitute any insurance, guarantee, or 	National banks do not have similar regulatory collateral requirements.

¹ Credit unions may be state or federally chartered. This document references provisions of the Federal Credit Union Act that generally apply to Federal credit unions. However, state chartered credit unions have generally similar provisions and limitations in a number of areas, but these may vary by state.

² A complete listing of the extensive lending and other powers of national banks prepared by the Office of the Comptroller of the Currency may be found [here](#).

³ Exceptions to this rule include credit unions that have a low-income designation and credit unions that were chartered primarily for the purpose of making member business loans.

	<p>advance commitment to purchase by any agency of the federal government, a state or any political subdivision of such state for the collateral requirements of this paragraph.</p> <p>12 C.F.R. § 723.7.</p> <p>In the aggregate, credit unions may not make unsecured MBLs in excess of 10% of a credit union's net worth. 12 C.F.R. § 723.7.</p>	
<p>Specific Board-Approved MBL Policy</p>	<p>Credit unions that offer MBLs must have a specific, written board-approved policy on MBLs that is reviewed at least annually. 12 C.F.R. § 723.5. At a minimum, this policy must include:</p> <ul style="list-style-type: none"> • Types and trade area of MBLs; • Maximum amount of assets relative to net worth that will be invested in secured and unsecured MBLs, invested in a given category or type of MBL, and loaned to one member; • Qualifications and experience of personnel with a minimum of 2 years in making and administering MBLs; • Analysis of the ability of the borrower to repay the loan consistent with appropriate underwriting and due diligence, which also addresses the need for periodic financial statements, credit reports, and other data when necessary to analyze future loans and lines of credit, such as, borrower's history and experience, balance sheet, cash flow analysis, income statements, tax data, environmental impact assessment, and comparison with industry averages, depending upon the loan purpose; • Collateral requirements, including LTV ratios, determination of value, determination of ownership, steps to secure various types of collateral; and how often the credit union will reevaluate the value and marketability of collateral; • Interest rates and maturities of business loans; • General loan procedures, including loan monitoring; servicing and follow-up; and collection; and • Identification of those individuals prohibited from receiving member business loans. <p>12 C.F.R. § 723.5.</p>	<p>National banks do not have a board-approved regulatory policy requirement on commercial loans that is as specific as a credit union's board-approved MBL policy.</p>

Loan Underwriting Requirements	Credit unions must follow strict MBL underwriting requirements, which include analysis of both the business and the guarantor. Analysis of the business includes: commercial and individual credit reports, balance sheet and income statements, cash flow statements, and ratio analysis. In addition, credit unions must consider regulatory limits and the guarantor's financial strength, which includes: cash flow analysis, net worth, collateral, and financial statements. 12 C.F.R. § 723.6.	While national banks and credit unions have some similarities regarding loan underwriting, such as with business and financial analysis, national banks do not have the statutory and regulatory restrictions on commercial loans that apply to credit unions, and national banks have broader and more extensive commercial loan powers.
Construction Loans	Credit union MBLs that are construction and development loans generally require the borrower to have a minimum of 25% equity interest in the project being financed. 12 C.F.R. § 723.3(b).	National banks do not have a similar regulatory requirement for construction loans.
Loans to One Borrower Limit	<ul style="list-style-type: none"> • Credit union MBLs to one member or group of associated members generally may not exceed the greater of 15 percent of the credit union's net worth or \$100,000. 12 C.F.R. § 723.8. • The aggregate of the unsecured MBLs to any one member or group of associated members may not exceed the lesser of \$100,000 or 2.5% of a credit union's net worth. 	National bank loans to one borrower generally may not exceed 15 percent of the bank's capital ⁴ and surplus. An additional 10 percent is permissible if fully secured by readily marketable collateral. 12 U.S.C. § 84(a); 12 C.F.R. part 32.
Other MBL Restrictions	<ul style="list-style-type: none"> • Credit unions that make MBLs must use the services of an individual with at least two years of experience in business lending. 12 C.F.R. § 723.5. • The maturity of credit union loans generally may not exceed 12 years. 12 C.F.R. § 701.21(c)(4). 	National banks do not have similar regulatory restrictions on commercial loans.

⁴ Banks may raise additional capital through the issuance of stock. 12 U.S.C. § 51a; credit unions may only build net worth through retained earnings.