Bank Small Business Lending

"Why in the heck do banks and bankers behave the way they do?"

Oregon
Pacific Bank

Rapid Fire Banking History

Rapid Fire Banking History

- Modern day banking history started during the Great Depression
  - Nearly 10,000 banks failed from 1930 – 1933
  - These banks held $6.8 billion in deposits (equivalent to $60 billion today)
  - Depositors of these banks recovered roughly 75% of the balances
  - 4% of all bank deposits nationwide were lost

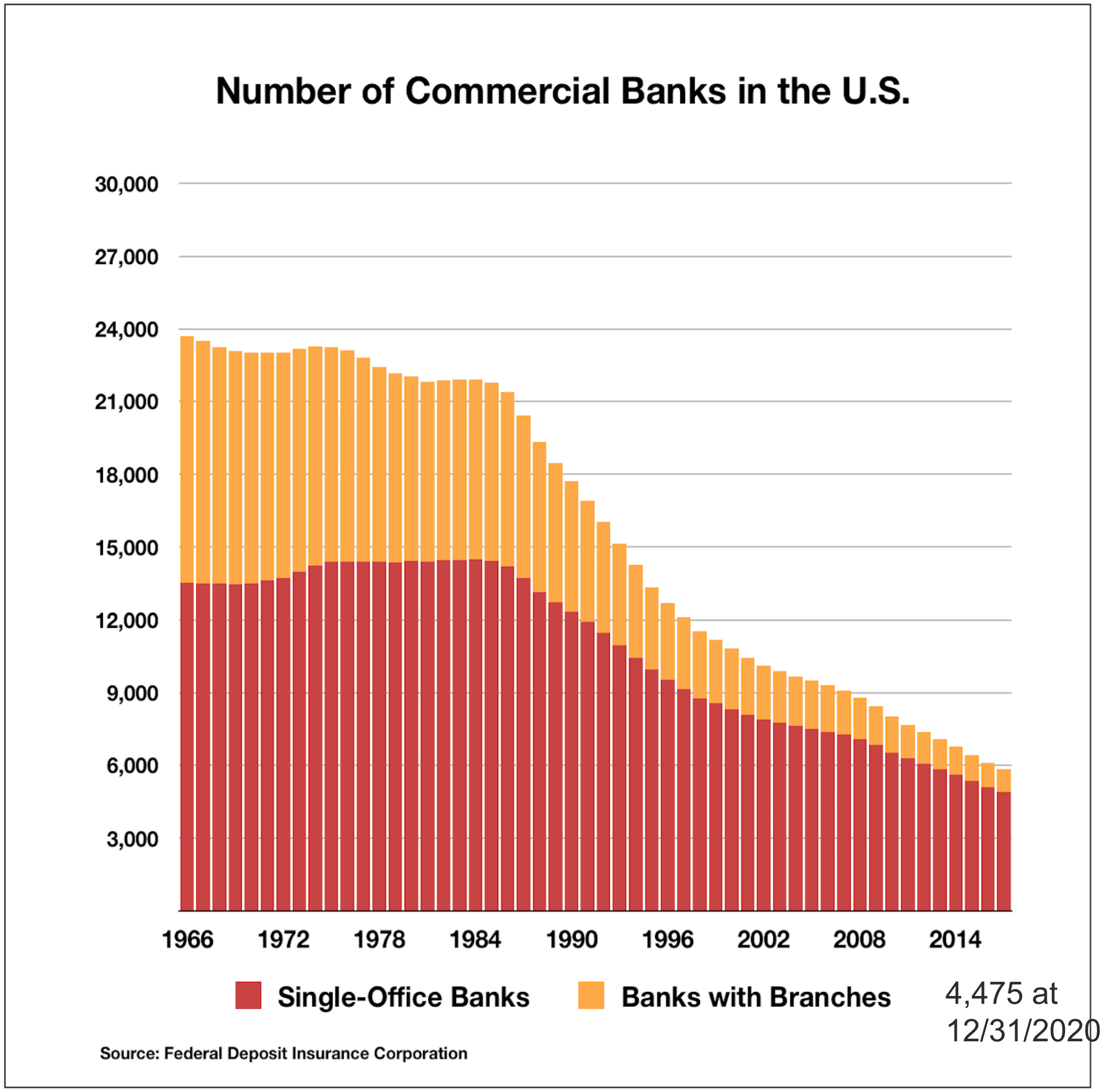
- President Roosevelt – landslide win in 1933
  - The New Deal – large scale relief program (The 3 R's)
    - Relief
    - Recovery
    - Reform

Oregon Pacific Bank

Rapid Fire Banking History

- The FDIC was created to instill confidence in the banking industry
- It is 100% funded through premiums paid by insured banks
- Since its creation, no insured deposits have been lost
- Since the Great Recession (2008) no uninsured deposits have been lost
- 536 banks have failed since 2008 – 6 were in Oregon

Rapid Fire Banking History



4,475 at 12/31/2020

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Rapid Fire Banking History

- The FDIC created a fund/reserve
- Losses on liquidation of failed banks, within insured limits, are charged to the fund
- The fund is replenished by bank premiums and "special assessments" for extraordinary events
- Failure of Washington Mutual and IndyMac banks caused the fund to go negative in 2008
- Remaining banks over the next several years paid annual premiums between 300% and 1000% of what they paid in 2007

Rapid Fire Banking History

Since 1933, the industry has gone through sweeping, but ongoing regulatory changes

There are thousands of state and federal laws and regulations the industry must comply with

Banking regulation and oversight exists for only two reasons:

1. Protect the deposit insurance fund
2. Protect consumers from discriminatory, abusive, and deceptive acts/practices

Banker behavior is a result of regulation designed to protect the depositor

Oregon Pacific Bank

Lending "Other Peoples Money"

Banks are not willing to take much risk.

- ➢Stats on small business failure
  - Don't believe the 90% fail the first year
- ➢Need proven operations and profitability
- ➢Banks don't get compensated for taking risk

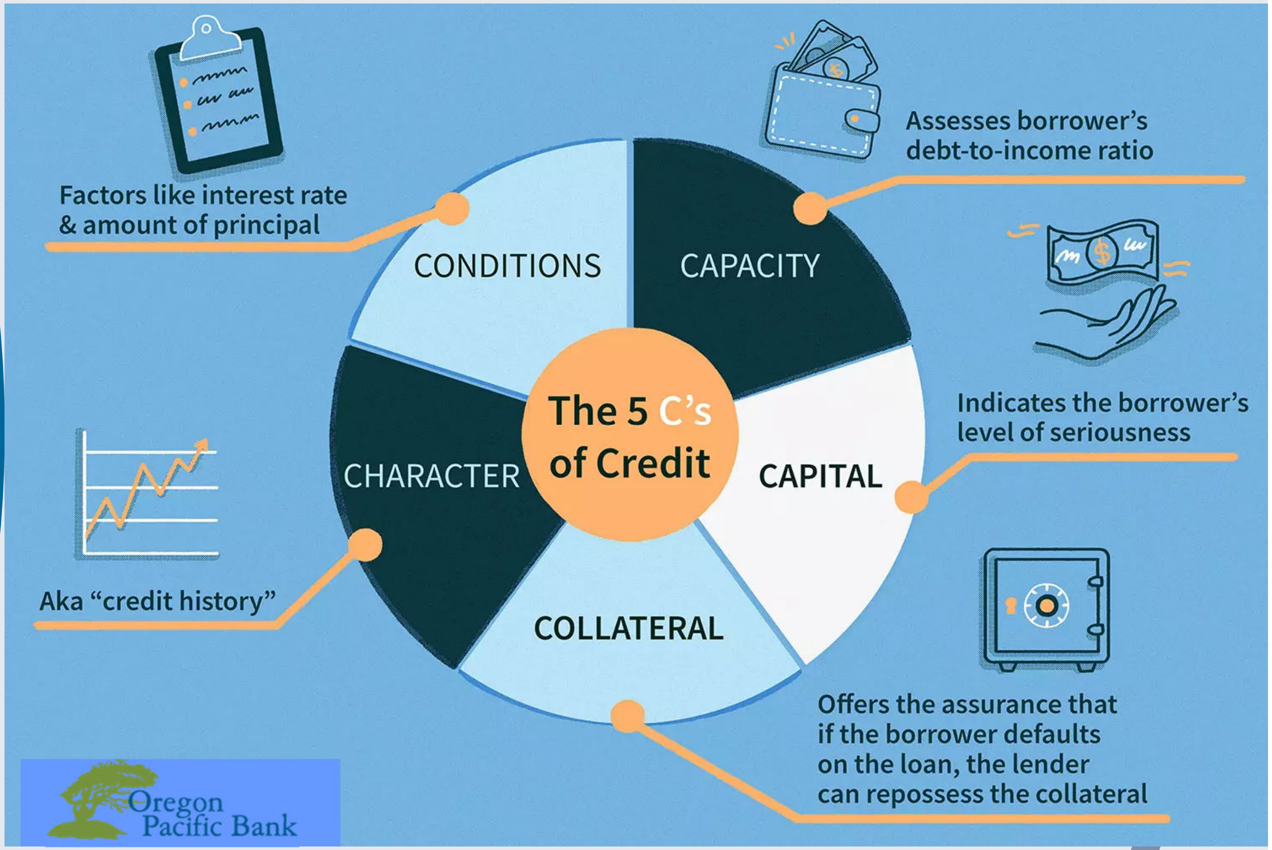
What you should know about Bankers

- They want to make you a loan
- That their source of debt is the least expensive and most difficult to acquire
- They do not want to take your business or collateral
- That want a mutually beneficial relationship
- That they will require you to deposit with them too
- They expect you to be prepared

What Bankers want to know

- That you know what you are doing
- That you understand how you make money
- That you know how to prepare (timely and accurate), read and use a financial statement
- That you understand what your cash flow drivers are
- That you are able prepare a budget and forecast
- That you are willing to put everything on the line (collateral, guarantee)
- That you know how much you need to borrow
- That your request and purpose are aligned
- That you have sustainable operating results that will repay the loan
- That you keep all taxes current
- That you are honest and transparent

Underwriting – Let's Revisit the 5 C's



Is there a 6^{th} C?

Balance Sheet

Balance Sheet

[Date]

(all numbers in $000)

ASSETS		LIABILITIES	
Current Assets		**Current Liabilities**	
Cash		Accounts payable	
Accounts receivable		Short-term notes	$100,000
(less doubtful accounts)		Current portion of long-term notes	
Inventory		Interest payable	
Temporary investment		Taxes payable	
Prepaid expenses		Accrued payroll	
Total Current Assets		**Total Current Liabilities**	
Fixed Assets		**Long-term Liabilities**	
Long-term investments		Mortgage	$500,000
Land		Other long-term liabilities	
Buildings		**Total Long-Term Liabilities**	
(less accumulated depreciation)			
Plant and equipment			
(less accumulated depreciation)		**Shareholders' Equity**	
Furniture and fixtures		Capital stock	
(less accumulated depreciation)		Retained earnings	
Total Net Fixed Assets		**Total Shareholders' Equity**	
TOTAL ASSETS		**TOTAL LIABILITIES & EQUITY**	

Vertical cost and who gets paid first

Income Statement

[Company Name]

Income Statement

For the Years Ending [Dec 31, 2014 and Dec 31, 2013]

Revenue	**2014**	**2013**
Sales revenue	110,000	95,000
(Less sales returns and allowances)		
Service revenue	70,000	62,000
Interest revenue		
Other revenue		
Total Revenues	**180,000**	**157,000**
Expenses		
Advertising	1,000	1,000
Bad debt		
Commissions		
Cost of goods sold	65,000	63,000
Depreciation		
Employee benefits		
Furniture and equipment		8,000
Insurance		
Interest expense	4,200	5,200
Maintenance and repairs		
Office supplies		
Payroll taxes		
Rent		
Research and development		
Salaries and wages Including yourself	55,000	55,000
Software		
Travel		
Utilities		
Web hosting and domains		
Other	17,460	
Total Expenses	**142,660**	**132,200**
Net Income Before Taxes	37,340	24,800
Income tax expense	14,936	9,920
Income from Continuing Operations	**22,404**	**14,880**
Below-the-Line Items		
Income from discontinued operations		
Effect of accounting changes		
Extraordinary items		
Net Income	**22,404**	**14,880**

Generally: If Net Income + Deprecation + Interest / your total annual debt payments is sustainable at > 1.25, you likely meet a banks cash flow requirement

What you should do

- Establish a relationship with a bank, credit union or CDFI
- Find a local banker who you can bounce ideas off
- Share your financial statements, even if you're not borrowing
- Digitize your operations and banking
- Seek cyber insurance
- Develop a "culture" at your business

Questions?