

# Candid Credit

## Discussion Series - Part II



*Pacific Continental Bank's Casey Hogan, executive vice president and chief credit officer*

### Small Business Administration (SBA) Lending

Credit availability continues to be at the forefront of small-business concerns. Pacific Continental Bank's Casey Hogan, executive vice president and chief credit officer, shares his thoughts about new SBA lending rules and how the rules affect the small-business community.

#### What changes are being implemented to SBA lending rules as a result of the Recovery Act?

**CH:** There have been several. With regard to its 7(a) program, the SBA has increased its guarantee to 90 percent of the loan value. The result is a significant increase in a bank's confidence that a loan will be repaid. This is important for borrowers that may have some weakness that would otherwise not make them a candidate for conventional financing. For borrowers, the new rules include elimination of SBA loan fees, which amount to about 2 percent to 3.5 percent of the guaranteed portion of the loan. This is a considerable savings. Eligible businesses can use 7(a) funds for just about anything, such as equipment, working capital, real estate, furniture and fixtures, building and renovation, and business acquisition.

#### What does an ideal SBA candidate look like?

**CH:** It is important to point out that not every business will qualify for an SBA loan; however, the program certainly opens up more possibilities. Businesses interested in applying for an SBA loan should have a proficient management team, a well-defined business plan, a solid understanding of their industry, their clients and their cash flow, and a source of repayment. Revenue-wise, applicants vary, from start-ups with no annual revenue to several million dollars a year. Pacific Continental not only makes the loan, but we also serve in a consultative capacity. We help our clients better understand their business finances and determine the best products for them.

#### Is the Recovery Act affecting Pacific Continental's credit decision making? Is the bank modifying its credit qualifications?

**CH:** We have always maintained strong, consistent credit quality standards. We continue to follow a best-practice approach to underwriting, and the SBA has strict guidelines. The SBA and our other regulators require that the loans we make, make sense. Our underwriting criteria is as important as ever, but the SBA has made changes that make their loans more cost effective for customers and more attractive to banks. I believe this will grease the wheel, getting some borrowers off the fence.

#### Have you seen an increase in loan applications since the new SBA guidelines were implemented?

**CH:** Yes, we have received an increased number of SBA applications and inquiries since the announcement of the Recovery Act. The new guidelines have made the loans very attractive - in one case a client saved \$10,000 in SBA fees. Another client, an attorney, is branching out on his own after being with a firm for several years. We are lending him funds to open his own practice, including working capital to cover monthly expenses. He has an existing clientele and a solid business plan. He's saving about \$1,500 in loan fees because of the new SBA provisions.

I encourage business owners to talk to their banker to gain a better understanding of the products and services that are best for their business. We are here to help small businesses navigate their financial path and continue on the road to success.

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