

Candid Credit

Discussion Series - Part III



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

Credit Accessibility

The ability to access credit at a reasonable price with acceptable terms remains a top priority for business owners and executives. Pacific Continental Bank's Casey Hogan, executive vice president and chief credit officer, answers specific questions regarding credit availability.

Businesses large and small have had a tough year. Cash flow is down – if not down-right negative. How can business owners with reduced or negative cash flow access the type of credit necessary to fund working capital?

CH: Historically, a company's cash flow indicates its ability to repay a loan according to the credit agreement. During tough times, cash flow activity may not provide a lender with enough information to make an educated and rational decision.

Since most banks are considered "cash flow lenders", borrowers should be prepared to present a fairly detailed business plan that explains and justifies how the new loan request will be repaid. Prospective borrowers should objectively address any weaknesses or opportunities their company faces. Future cash flow relies on the ability of a business owner or company executive to correct deficiencies, as well as, take the initiative to discover new revenue resources. It's also important to understand when to scale back (or expand) business operations to meet the changing environment.

Another option for accessing credit is through the business lending programs sponsored by various government agencies, including: the U.S. Small Business Association (SBA), the U.S. Department of Agriculture (USDA), and the State of Oregon. These government-sponsored programs may be willing to provide the bank with a partial guarantee of the loan balance. Participation by such agencies does not mean automatic approval, but it does provide an opportunity to mitigate the additional risk associated with the negative cash flow issue.

Regardless of the rhetoric, the government simply can't make community banks lend money to businesses struggling with negative cash flows. How has Pacific Continental helped small businesses – even those with reduced cash flows – survive this tough economy?

CH: One of the most important ways we have helped companies survive the recession is through our role as a consultative lender. I acknowledge up front that "consultative lender" is a banking buzz term if ever I heard one; however, it really does describe the value we

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Helpful Web Sites:

Oregon

Business Oregon

oregon4biz.com

- Oregon Business Development Fund
- Oregon Credit Enhancement Fund
- Oregon Capital Access Program

Washington

Access Washington

access.wa.gov/business

National

Small Business Administration

SBA.gov

place on the relationship between the bank and the client. We know we can provide consultation and value to the banking relationship if we have the opportunity to clearly understand what's happening within the business, good, bad or ugly. The sooner we are aware of potential problems, the sooner we can identify potential solutions. And the more quickly problems are identified, the more options are available to help solve the issues or minimize loss exposure to the bank and client.

Bottom line – communication between the bank, the borrower and other trusted advisors remains absolutely critical to any company's success in a tough economy.

Through the American Recovery and Reinvestment Act of 2009, the SBA temporarily increased the government's guaranty to 90 percent and eliminates loan guaranty fees. Banks and borrowers alike have responded positively. What does an ideal SBA candidate look like?

CH: As of the time of this response, Congress has extended the increased 90% guaranty and elimination of loan guaranty fees through the end of February 2010. Congress is currently working on programs that will benefit small business and encourage lenders to utilize the programs; however, what any new programs may look like is unknown at this time. While the temporary or potential new changes to the SBA programs may make them more enticing to lenders, candidates must still qualify on their own credentials.

A successful SBA borrower will demonstrate a history of performance or a solid plan for supporting repayment of the loan. Additionally, he or she will display the following characteristics: proven management abilities, strong industry knowledge, knowledge of market conditions, and awareness of competitive advantages and disadvantages. Lastly, the borrower will objectively acknowledge the barriers or obstacles that may stand in the way of success.

Pacific Continental Bank, like many community banks across the country, elected not to accept Trouble Asset Relief Program (TARP) funding. Given the negative public perception toward banks who accepted TARP dollars, how likely is it that banks will actually participate in any type of new TARP-related program as is currently being discussed in Congress?

CH: Good question. I wish I had a good answer. Currently, neither the Obama administration nor Congress have provided sufficient details for banks to make an educated guess, let alone an informed decision, regarding specific actions they would take on a what-if program that may or may not be approved.

I will say, however, that a majority of community banks have the ability and desire to make good loans; the rub comes from regulatory bodies that have directed banks to reduce their exposure in certain types of loan portfolios.



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