

# WORKING EFFECTIVELY WITH YOUR BANK

**PRESENTED BY:**

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Silver Fox Advisors



## What Banks Continuing to Struggle With

- Capital requirements
- Regulator criticism of loan portfolio's (especially real estate of all types)
- Reduced earnings
  - Loan losses
  - Write downs – loan balances to appraisals
  - Thinner margins – Frank/Dodd Legislation
  - Lower transaction volumes – less non-interest earnings
- Liquidity



# BANKING IN THE REAL WORLD...NOW

Houston Area Banker's Survey Conducted September, 2009

Question 1 - Is your Bank making loans to existing customers?

Responses:      Yes      90%

Question 2 - Is your Bank making loans to new borrowers?

Responses:      Yes      90%

Question 3 - Has your Bank's underwriting standards - tightened, remained the same or lessened - over the past year?

Responses:	Tightened	<u>100%</u>
	Remained Same	<u>0</u> %
	Lessened	<u>0</u> %



# BANKING IN THE REAL WORLD...NOW

## Houston Area Banker's Survey Conducted September, 2009

Continued-

Question 4 - Has your Bank's loan pricing - increased, remained the same, lessened - over the past year?

Responses:	Increased	<u>40%</u>
	Remained Same	<u>60%</u>
	Lessened	<u>0%</u>

Question 5 - Is your Bank staying away from any types of loans?

- Speculative Real Estate
- Non-owner occupied commercial real estate
- Hotels
- Franchises
- Raw Land
- None - if it makes sense and is to a customer and cash flows



# BANKING IN THE REAL WORLD...NOW

## Houston Area Banker's Survey Conducted September, 2009

Continued-

Question 6 – Do you see lending opening up anytime soon?

Responses:	6 to 9 months	<u>10%</u>
	6 to 12 months	<u>10%</u>
	12 months plus	<u>70%</u>

Question 7 – What do you think was the cause of this tight credit environment?

- Government Fiscal Policies
- Lack of credit standards
- Regulatory actions
- Deterioration of Asset Quality
- National Debt
- Bail out of Big Banks
- Uncertainty
- Unemployment levels



## Difficulties in Obtaining Financing

- Single transaction financing (not a customer)
- Outside of the box transactions
- Speculative transactions
- Highly leveraged transactions
- Real estate transactions

## What Bankers Are Looking At

- More Comprehensive financial analysis:
  1. Historical
  2. Projected
  3. Global cash flows- All sources of revenues. Details of all expenses and payments
- Updated collateral valuations – by third parties
- On-going financial reporting



## What Bankers Are Looking At Continued-

- Larger down payments – more of your cash in the deal
- Higher base interest rates – Prime Rate (a thing of the past)
- Stricter terms:
  1. Shorter repayment period
  2. Principal and interest payments (no interest only periods)
  3. Lower LTV's ( not what you paid for it but what it is worth)





# BANKING IN THE REAL WORLD...NOW

## Alternative Financing

- Asset based lending
- Owner financing
- Foreclosed property
  - Typically at discounted prices
  - Low or no down payment
  - Easier underwriting terms
- Private Investors



# BANKING IN THE REAL WORLD...NOW

## Alternative Financing

Continued-

### THINK - SBA Loans

- American Recovery and Reinvestment Act of 2009
  - Increased Guarantee to 90%
  - Eliminated fees (until 12-31-09) from 2.0 to 3.75%
- SBA 504 Loans can now be used to refinance real estate debt.
- Increased number of 7A Applications at local Houston office (still behind last year, however).
- Dollar amounts of 7A requests have been increasing.
- More community banks and credit unions getting involved in SBA lending.



## What Should You Do To Become A Good Bank Client?

10. Maintain ALL insurance coverage's
9. Pay ALL taxes on time
8. Provide current Personal Tax Returns
7. Provide current detailed Personal Financial Statements
6. Provide current Business Tax Returns

## What Should You Do To Become A Good Bank Client?

5. Provide current detailed Business Financial Statements
4. DO NOT overdraw your checking accounts
3. Plan ahead
2. Don't surprise your Banker
1. Maintain open lines of communication



# PRESENTER

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# BANKS

## WHO NEEDS THEM?

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## BANKS

# WHO NEEDS THEM?

### Four Scenarios

- Developer/Builder- founded 1983
- Erosion Control Co.- founded 1979
- Refuge Waste Hauler- founded 2001
- Electro-Chemical Plater- founded 1984

# What should You look for in a Bank/Banker

Bank active in dealing with small businesses

An individual experienced in the Banking Industry that asks you questions about your business

Texas-based or local financial institution

A full service Bank

An institution that is large enough to meet your needs





## BANKS

# WHO NEEDS THEM?

### Erosion Control Co. - founded 1979

Condition – Small sales decline, no debt, strong cash position

#### Available

- Small bank, A/R loan
- Large bank, equipment loan
- Asset lending only

Prospects – Good growth opportunities

## BANKS

# WHO NEEDS THEM?

### Refuge Waste Hauler - founded 2001

Condition – Slight sales decline, Large debt, Poor cash position

#### Available

- Equipment leasing

#### Dried-up

- Small bank financing
- Large bank financing

Prospects – Sold out to strategic buyer



## BANKS

# WHO NEEDS THEM?

### Electro-Chemical Plater - founded 1984

Condition – Declining sales, Large debt, Cash position deteriorating

#### Available

- Private investment

#### Dried-up

- Small bank financing
- Large bank financing

Prospects – Depends on length of recession



## BANKS

# WHO NEEDS THEM?

### Observations

- All of these businesses were viable during 2008
- Declining sales and increasing debt is a deadly combination in 2009
- Companies in financial distress must look to private investors for help

# PRESENTER

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# BANKING IN THE REAL WORLD...NOW

## Case Study – Financing a new office building

- Company:** A Professional Service company in business for two years; three partners with annual sales of \$2.2 million.
- Issue:** Need more office space. No office space available in present building. Current lease has 18 months to go. Partners want to own their own building. They also want to preserve cash for operating cash flow.
- Solution:** Purchased Bank Foreclosed Property. Zero down payment. 30-year financing. Fixed, low interest rate. \$500,000 additional money for improvements.



# BANKING IN THE REAL WORLD...NOW

## Case Study – Start up a Home Building Company

**Company:** Home builder wanted to reactivate an inactive home building company.

**Issue:** Soft market for new homes. Construction loan financing limited.

**Solution:** Purchased a 37 acre uncompleted sub-division foreclosed on by bank. Zero down payment. 5-year financing. Fixed, low interest rate. New money to finish development. Financing provided for 2-spec homes. Financing of homes purchased by end users.

# BANKING IN THE REAL WORLD...NOW

## Silver Fox Advisors Lunch and Learn Attendee Survey

Question 1 – How would you rate your present banking relationship today vs. a year ago?

Question 2 – If you have a borrowing relationship with your bank or other financial institution, has it been...

Question 3 – Have you delayed expansion of your business or the purchase of new assets during the past year because you could not obtain financing?





# BANKING IN THE REAL WORLD...NOW

## Silver Fox Advisors Lunch and Learn Attendee Survey

Continued-

Question 4 – Has your bank or financial institution informed you of a change in their lending practices, loan pricing or terms in the past year?

Question 5 – What is your level of confidence in your present banking relationship?