

Remember the Golden Rule! ***Whoever has the gold, makes the rules!***



The banks have the money, the banks make the rules, and the rules are changing in our COVID world. We thought you'd see what's going on in banking and appreciate all of these bankers for taking the time to share their thoughts with us.

The following table shows the bankers we talked with, the topics, and what each banker relayed to us on the four topics. There's a lot of information, it's in bullet point format, and we will stress the best initial step for borrowers is to get to know bankers and build relationships.

We want to thank all of these bankers for taking the time to share their thoughts. Their email addresses are at the end of the report for ease in contacting them.

Banks and bankers who shared their thoughts

Banner Bank – Lynell Smith & Jacque Coyan
Columbia Bank – Jeff Wilcox
Heritage Bank – Addie Roberge
Key Bank – Jane Pekasky & Jennifer Ringenbach
Live Oak Bank – Lisa Forrest
NW Bank – Gary Strand
Sound Credit Union – Donna Himpler
WA Trust Bank – Kit Gerwels

Topics, referenced below by number

1. What's changed and the bank's appetite for buy-sell loans
2. Industries not preferred at this time
3. Underwriting changes due to COVID
4. Tips for borrowers

Lisa	1	Open for business, looking for deals, are actively underwriting and closing loans We like essential services businesses We have questions about elective health care and software catering to non-COVID resistant industries Must have YTD monthly statements for 2020 and 2019 first Then, look at prior three years with an emphasis on 2019
Lisa	2	Not doing motel/hotel, airline related, med spas, anything that brings people together like family entertainment, bouncy houses, etc.
Lisa	3	COVID questionnaire is a must Their "box" hasn't changed per se Will want appropriate levels of seller financing (that might entail larger seller notes or enhanced seller terms, especially if mitigating any uncertainty) Will want more seller financing (larger seller notes) We expect the borrower to do their required homework
Lisa	4	2020 financials are a must Keep an eye on 2 nd phase of the virus, the fall flu season, recession into 2021 Business sellers need to be aware of what's going on and realistic, especially if customers are in industries mentioned in point 2 Need to understand the business' customers and any risks to revenue channels and the entire supply chain. There are no experts right now with what's going on or will go on
Lynell & Jacque	1	Will now want 15-20% and at least 20-25% from buyer/seller combined Will look at projections more, just like starting in 2009 Why and how has COVID affected the business now and in the future Cautious on loans when the business depends on retail stores or is a retailer Emphasized will want buy-sell deals but with more down from the buyer
Lynell & Jacque	2	Restaurants
Lynell & Jacque	3	Getting more conservative; not overlooking it when there are a couple little issues Must have a good business plan Borrower quality is important, industry experience and knowledge is a deciding factor Will pay attention to who referred the deal to the bank
Lynell & Jacque	4	Have patience – it will take longer Will need good, detailed information If advisors are involved it's a big plus Have structure and story prepared and well presented
Gary	1	Open for deals and pausing on some things until the fog lifts Treating COVID like 2008 and 9/11 – what's the unknown Will move to SBA 7A program or pause if not enough collateral (on conventional loans) (NW Bank had done conventional acquisition loans emulating the SBA program) Retreating to the laws of "finance gravity" There's a heightened discipline around pricing We know there's a 10-12-year cycle and we're all (all bankers) rusty with distressed loans
Gary	2	Nothing new but they don't do cannabis or guns
Gary	3	See point one
Gary	4	Know the appropriate debt-equity ratio and the amount of down payment Be thoughtful about the amount of debt Do your own sensitivity analysis (aka stress test, how the loan will perform if business declines by various percentages) – what does it look like if there's a 30% drop in revenue Engage banks earlier, get multiple opinions (multiple banks), this is more important now than before

		Realize emotions are heightened; if a bank doesn't want your (good) business it's probably asset allocation not personal; the bank is making an "investment" based on the bank's risk tolerance not the buyer or seller's
Jeff	1	Open for business Moving more to SBA 7A that they would have done conventional pre-COVID Examples – one too small (\$1.2 million), would have passed, did SBA and another had a lot of goodwill (no collateral), would have done conventional last year but did SBA now More forward modeling with a greater degree of stress More conservative lending with more collateral
Jeff	3	Doing a COVID analysis, pre- COVID present- COVID, future and recovery from COVID and wanting to understand the long-term industry affect Digging in further on the business/industry
Jeff	4	Have strong internal accounting infrastructure Owner should understand the financials and how they relate to operations Want to see a strong CFO or controller Owners should know how to manage expenses Be realistic on where the business is going; talk candidly and with realism to your banker about any challenges and how you will handle them; those to address this instead of saying all will be great will go further with the bank
Kit	1	Open for business and prefer strategic buyers, especially existing customers, then will look at other deals Will be asking – what recourse does the bank have? Valuation – is it accurate; forecasting, how can we perform diligence with unreliable projections
Kit	2	No list of businesses they won't lend to Will gravitate to the client's expertise, the relationship managers expertise, and the deal itself
Kit	3	Underwriting has not changed – will be consistent with past practices
Kit	4	Get to know bankers Talk holistically with bankers on how it all works Have a good advisor to guide you Talk to bankers early
Jane & Jennifer	1	KeyBank is making loans to clients. In addition to traditional loans, we are working on post-deal liquidity as well. We are also fielding questions and helping to find solutions for clients as all businesses have been affected by COVID-19 in one way or another
Jane & Jennifer	2	We are certainly answering more questions about underwriting lately. But we still require the same percentage down from the buyer, higher seller notes may be required, but on a case by case basis
Jane & Jennifer	3	More questions in underwriting (including COVID) Same percentage down from buyer, higher seller notes may be required on a case by case basis.
Jane & Jennifer	4	Talk to your bankers, we are here to help. Your bankers are trusted advisors, in good and hard times. PPP showed us how important that is. Take the time to write down your questions to the bank and understand the answers. This will help in the long run and assist us in helping you meet your needs
Addie	1	Has shifted from all PPP to accepting acquisition loan applications Seeing growing activity for acquisition loans
Addie	2	CRE Retail financing is suspended along with vet and dental suspended until specific counties reopen (phase 2) Direct vehicle financing has stopped
Addie	3	Will not fund if business is temporarily closed due to COVID-19 If business is partially in operation – we will dive in and use projections Looks at the industry – If shut down again how would it effect the business Stress testing Year over year supply chain April 2019-April 2020 (A/R) Are the payments coming in slower

Addie	4	Cash is king Buyer needs to understand this is the "unknown" SBA will make customers payments on all SBA loan booked and fully funded by 9/27/2020
Donna	1	PPP is fading out – busy with acquisition loans Liquidity has a new meaning If necessary will hold liquidity into account 6-8 months
Donna	4	SCU really hasn't and isn't changing the way they do things except for liquidity part – the more the better

Banker contact information;

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