

# Commercial Lending and Business Banking

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# Commercial Lenders

- Cheapest funding source
  - Banks take lower risk and can therefore charge lower rates
  - Typically banks reduce credit risk by lending money to companies with positive historical trends, predictable cash flow, sufficient collateral, and strong guarantor support
  - Banks can also reduce risks that come with financing start ups through government guaranteed programs, such as SBA loans



# Commercial Lenders

- Who's Lending \$\$\$?
  - Large Nationals
    - Wells Fargo
    - Chase
  - Regional Banks
    - Vectra Bank
    - Great Western Bank
  - Community Banks and Credit Unions
    - Flatirons Bank
    - Colorado Capital



# Current Banking Climate

- The regulatory bodies (FDIC, OCC, etc.) have required banks to become more conservative with loan structures
  - Lower loan to values on commercial real estate
  - Higher debt service coverage requirements
  - Lower leverage on borrower balance sheets
  - The bank needs to have a better understanding as to how they will get paid back
    - What are the first, second, and tertiary sources of repayment?
    - What happens if client's revenues decline?
    - Essentially, what happens if the loan goes bad? How does the bank protect its client's deposits?



# Current Banking Climate

- The previous 18 months have been challenging for every bank, but some are worse than others
  - Try to avoid banks who had the largest concentrations in commercial real estate
    - This can result in a freezing of credit while bankers work through the problem loans, i.e. speculative commercial real estate loans, land loans, acquisition and development loans, etc.
  - Many banks still lending
    - Well capitalized banks
    - Banks with lower percentage of classified or “troubled” assets



# Start Up Financing

- Most banks will use an SBA product unless one can qualify for an consumer loan backed with personal collateral and outside income.
  - What do I need?
    - Self-contained business plan
    - Detailed description of your business and what you plan to accomplish
    - Conservative and logical financial projections!
      - Between 3 and 5 years of income statement, balance sheet, and cash flow projections
    - Explain how your personal and/or professional background translates into your new business venture



# Start Up Financing

- What do I need to do?
  - Banks are spending more time underwriting the loan and try to better understand the economics of the business
    - Requires more detail in your business plan
  - More rigorous underwriting process
    - This is ultimately a positive for both the borrower and the bank
    - Better understanding of your business and what it takes for you to succeed
    - Help to put together structured financing that best suits your business



# How to Choose a Bank?

- Ask your CPA, attorney, friends, vendors, clients, etc.
- Focus on finding a good banker as opposed to bank
  - A good banker will go to bat for you in good times and bad
  - Banks come and go, lend and stop lending
  - Good bankers will always be part of the community
- Don't necessarily choose the bank with the lowest price
  - Understanding your business takes time and time = \$\$\$
- Choose a bank that has similar values as your business
  - Examples: green banks, high level of customer service, community involvement, etc.
- Find banks that are still lending
  - Texas Ratio, Bankrate.com



# What are banks doing to go green?

- Many banks are taking steps to reduce their impact on the environment
  - E-Statements
    - Reduces wasted paper
  - Paperless office?
    - Help do your part by submitting soft copies of business plans and financial statements
  - Remote Deposit
    - Deposit checks from your office
    - Eliminates the need to drive to the bank



# Green Banking

- Putting our money where our mouth is:
  - Discounts for environmentally friendly businesses
  - Special efforts towards making credit available to green companies
  - Planting a tree for each business who signs up for E-statements and remote deposit
  - LEED Certification for bank branches
    - Flatirons Bank receives Gold Certification for its Boulder Branch
  - Hybrid fleets for officers of the bank



# Q & A

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