



PACIFIC PREMIER BANK®

Bank Financing: A Company's Cheapest Capital Source

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What I Hope You'll Walk Away With

- A Better Understanding Of:
 - The Economics Of Banking
 - Key Commercial Loan Products
 - How To Position Your Business To Obtain Credit
 - The Current Lending Environment

Economics of Banking:

“Seek First To Understand, Then
To Be Understood”

Stephen Covey

“Invert. Always Invert.”

Charlie Munger

Cliff Divers We Are Not



This Is More Our Speed



Regulated Business – Have To Be Right Close To 100% Of The Time

- Not expected to nor are we paid to take excessive risks
- % of Assets, Not Sales
- Leveraged 10-15x
- 4.0% Net Interest Margin
- 1.0 -1.5% ROA
- 12% - 18% ROE
- Every 10 bp in spread is 1% point increase in ROE



Key Credit Regulations – Who Is This And Why Does He Look Like This?

- FDIC Approved Bank Policies
- Loan Risk Rating System
- FDIC Audits and Bank Ratings



Top Rated Credits

- Proven Sources of Cash Flow
- Well Collateralized
- Low Leverage
- Lower Reserve Requirements
- Lots of Latitude



Watch List Credits

- Interim Loss
- Modest Decline In Collateral Value
- Bank Still Likely To be Fully Repaid
- Bank Reserves Must Be Increased



Substandard Ratings

- Sustained Losses
- Material Decline in Collateral Value
- Bank Unlikely To Be Repaid In Full
- Bank Must Write Down The Loan



Bank Loan Products

- SBA 7a and 504 Programs
- Lines of Credit
- Term Loans
- Commercial Mortgage
- SBA 7a and 504 Programs
- Acquisition Financing

Revolving Line of Credit – Don't Max it Out

- Used for working capital
- Try to limit advances to 75% of A/R
- Should revolve throughout the year
- Prefer a 30 day “clean up” or “resting” period when balance is \$0



Collateral – Don't Bank On Inventory Advances

- If You Can't Sell It, How Can We
- Liquidation Discounts Are Huge
- Tends to Disappear
- Potential Vendor Claims
- No WIP
- Advance Rates of 10 – 50%, with Caps



Term Loan: Match Term to Life of Underlying Asset

- Uses:
 - Purchase Equipment
 - Make Improvements
 - “Permanent” working capital
- 75% of cost
- 3 to 7 year term
- Can include up to 1 year draw down period
- Fixed rate pricing



SBA 7a – A Little Extra Credit Support

- Mostly used for bus acq, leasehold mprovements, other business assets
- Supports shortfall in either collateral or cash flow
- Up to 10 year amortization
- Floating rate over prime
- Often requires outside collateral (primary residence)



SBA 504

401K for Business Owners

- Owning building is part of retirement plan
- 50% Bank, 40% SBA, 10% Owner Equity
- 40% SBA same for all borrowers
- Includes the cost of improvements and closing costs
- Must occupy 51% of property



Acquisition Financing – What's the Air Ball?

- Bank prefers to lend against hard assets
- Provide Working Capital Line of Credit
- Term Loan secured by equipment
- Air Ball is the gap between desired loan amount and collateral availability
- Look to Debt to Cash Flow Multiple
- Mezzanine Financing



Tips to Obtaining Commercial Bank Credit

Improve The Quality and Appearance of Your Financial Statements

Missing Teeth

- Company Prepared
- Cash Basis
- Inconsistent Accounting Treatment
- Net Worth Doesn't Reconcile
- Late



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Perfect Smile

- Accrual Basis
- Accountant Prepared
- Footnotes
- Analysis
- Timely
- Consolidating/Consolidated
- Projections



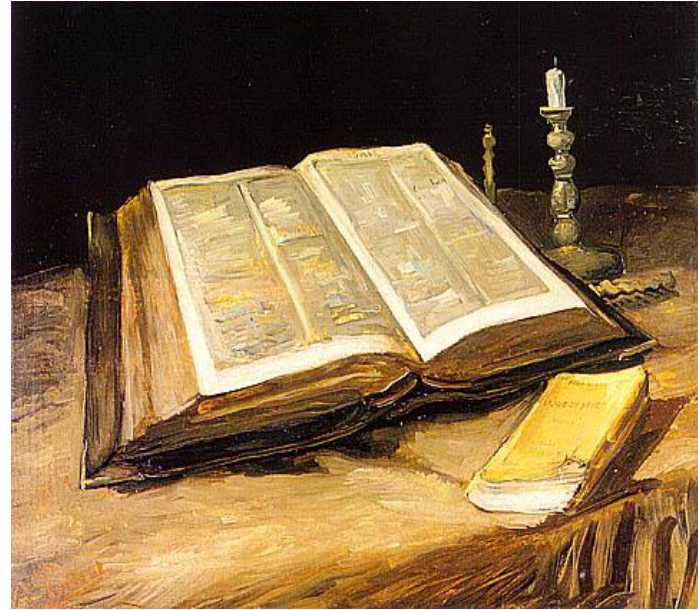
Make It Easy

- 3 Years Tax Returns and Company or Accountant Prepared Financials
- Personal Financial Statement
- Interim Financials, including A/R and A/P
- Deposit and Loan Statements
- Debt Schedule
- Resume
- Company History



Understand The 5 Cs of Credit

- Capacity
- Collateral
- Capital
- Character
- Conditions



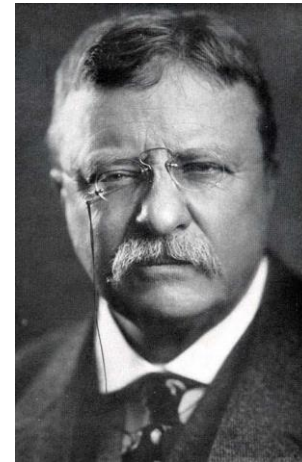
Sources Of Repayment – At Least Two Ways Out

- 1st Way Out Is Always **Capacity** To Repay: Operating Cash Flow
- 2nd Way Out Is Usually **Collateral**
- 3rd Way is Usually **Capital**: How much invested, as well as business equity and personal equity



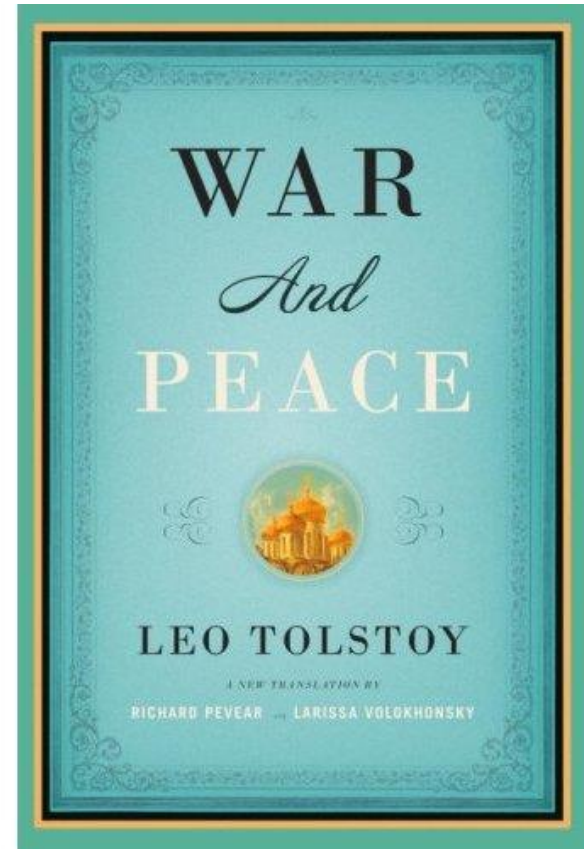
Capacity To Repay – Past Performance Trumps The Future

- Company: **EBIDA/Debt Service Of At Least 1.25x**, Preferably Over 2.0x
- Personal: **Debt Service/Income Of No More Than 40%**
- Global Cash Flow: All Companies + Personal
- Consider Presenting Trailing 12 Months

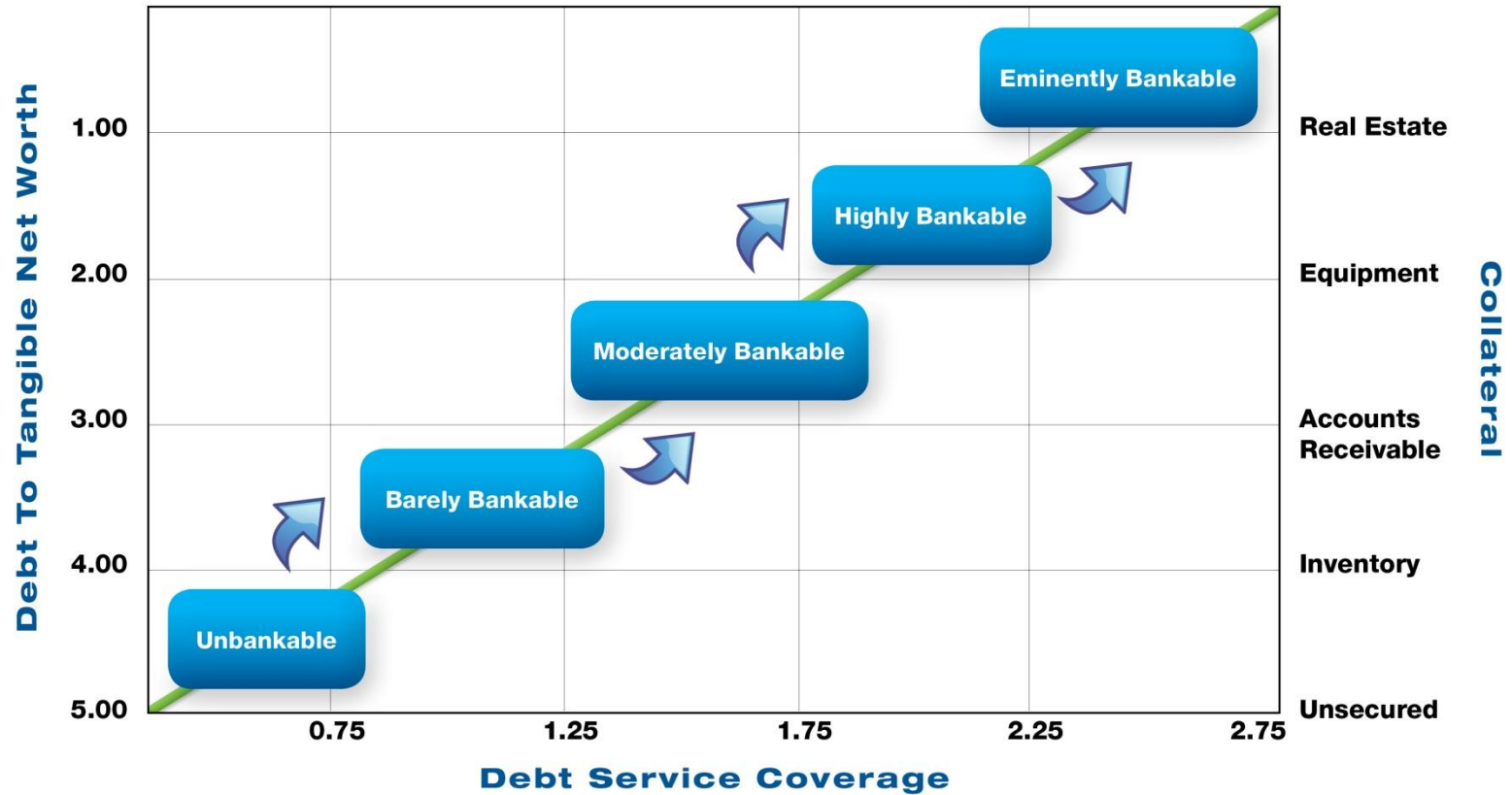


What's The Story Behind Your Net Worth

- Successes
- Failures
- Conquests
- Abdications
- Love
- Death
- Spoils



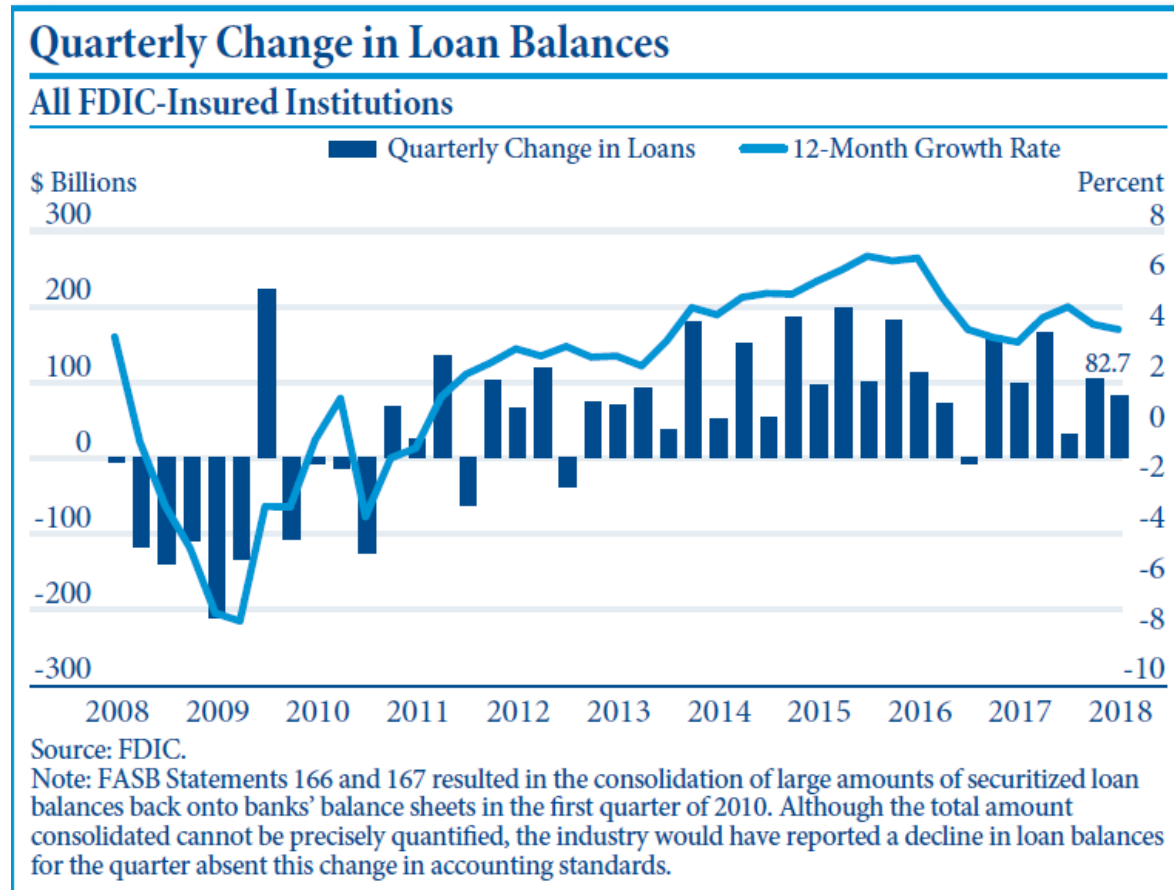
Bankability - Key Ratios and Collateral



Current State of the Banking Industry

Loan Growth Slowing

Chart 6



Loan Growth By Type

Assets and Liabilities of FDIC-Insured Commercial Banks and Savings Institutions (Amounts in \$ Millions)												
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Loans secured by real estate	6.08%	-1.60%	-5.18%	-4.37%	-3.11%	-1.02%	-0.64%	2.58%	4.91%	5.21%	3.70%	2.39%
1-4 Family residential mortgages	3.02%	-8.76%	-6.33%	-0.83%	-0.90%	0.57%	-3.37%	0.67%	3.36%	4.79%	3.44%	2.70%
Nonfarm nonresidential	7.11%	10.07%	2.35%	-1.85%	-0.99%	1.22%	3.33%	3.70%	7.07%	7.52%	5.07%	3.91%
Construction and development	11.36%	-6.11%	-23.73%	-28.76%	-25.28%	-15.32%	3.41%	13.46%	15.51%	13.65%	8.11%	3.42%
Home equity lines	9.32%	9.30%	-1.01%	-3.77%	-5.11%	-8.28%	-8.05%	-3.37%	-5.49%	-6.70%	-5.29%	-8.63%
Multifamily residential real estate	5.05%	1.80%	3.02%	-0.01%	2.73%	6.78%	12.74%	13.08%	15.69%	11.28%	5.49%	6.57%
Farmland	9.00%	10.96%	4.53%	2.09%	0.95%	7.98%	5.39%	7.08%	8.05%	6.01%	5.45%	3.83%
Commercial & industrial loans	18.47%	3.81%	-18.75%	-2.47%	13.64%	11.04%	4.87%	9.45%	7.10%	5.17%	3.97%	7.78%
Loans to individuals	10.80%	2.87%	-2.85%	24.44%	-0.67%	1.25%	2.20%	4.82%	5.62%	6.11%	5.57%	3.87%

Healthy and Consolidating

TABLE I-A. Selected Indicators, All FDIC-Insured Institutions*

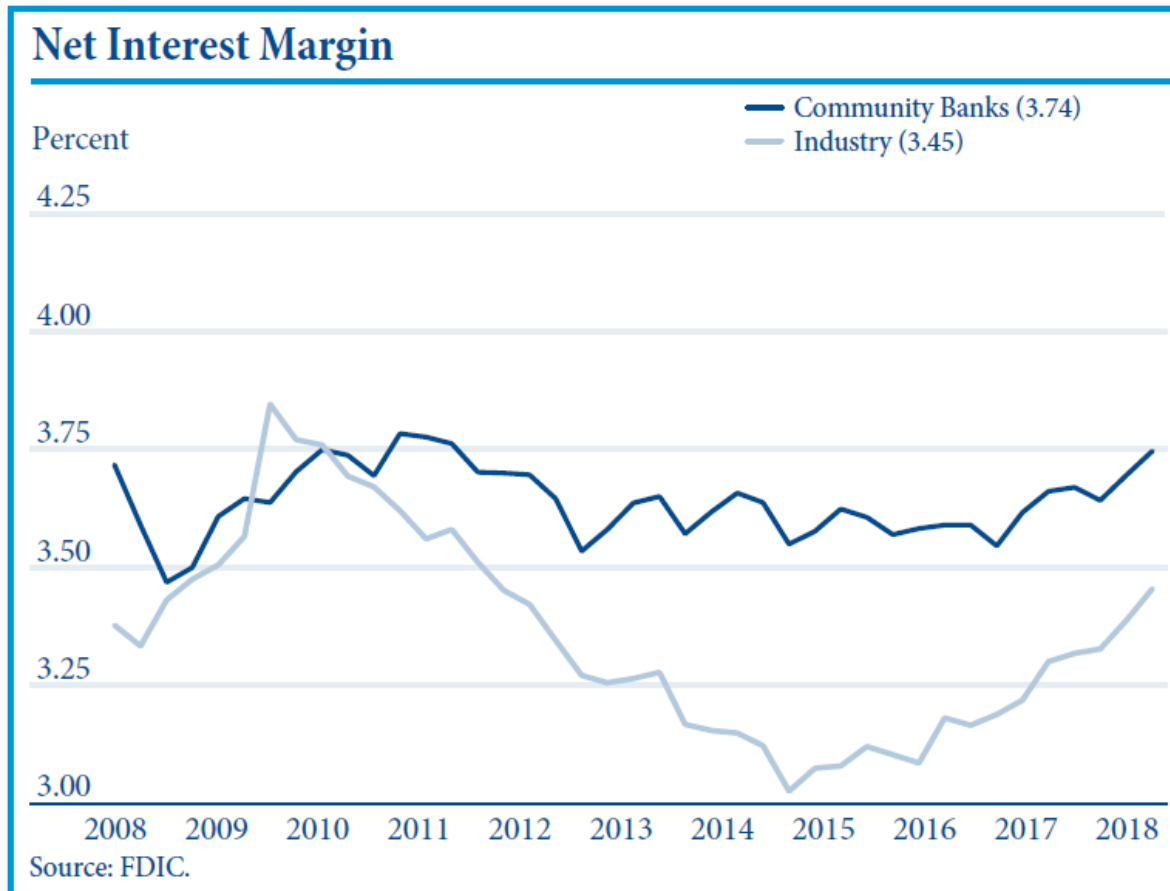
	2018**	2017**	2017	2016	2015	2014	2013
Return on assets (%)	1.36	1.10	0.97	1.04	1.04	1.01	1.07
Return on equity (%)	12.05	9.77	8.61	9.29	9.29	9.01	9.54
Core capital (leverage) ratio (%)	9.77	9.70	9.63	9.48	9.59	9.44	9.40
Noncurrent assets plus other real estate owned to assets (%)	0.62	0.73	0.72	0.86	0.97	1.20	1.63
Net charge-offs to loans (%)	0.48	0.48	0.50	0.47	0.44	0.49	0.69
Asset growth rate (%)	2.50	2.84	3.79	5.09	2.66	5.59	1.94
Net interest margin (%)	3.38	3.23	3.25	3.13	3.07	3.14	3.26
Net operating income growth (%)	28.72	9.68	-3.25	4.57	7.11	-0.73	12.82
Number of institutions reporting	5,477	5,738	5,670	5,913	6,182	6,509	6,812
Commercial banks	4,774	4,971	4,918	5,112	5,338	5,607	5,847
Savings institutions	703	767	752	801	844	902	965
Percentage of unprofitable institutions (%)	3.30	3.90	5.61	4.46	4.80	6.27	8.16
Number of problem institutions	71	104	95	123	183	291	467
Assets of problem institutions (in billions)	\$53	\$16	\$14	\$28	\$47	\$87	\$153
Number of failed institutions	0	6	8	5	8	18	24

* Excludes insured branches of foreign banks (IBAs).

** Through September 30, ratios annualized where appropriate. Asset growth rates are for 12 months ending September 30.

Net Interest Margin Expanding For Now

Chart 2



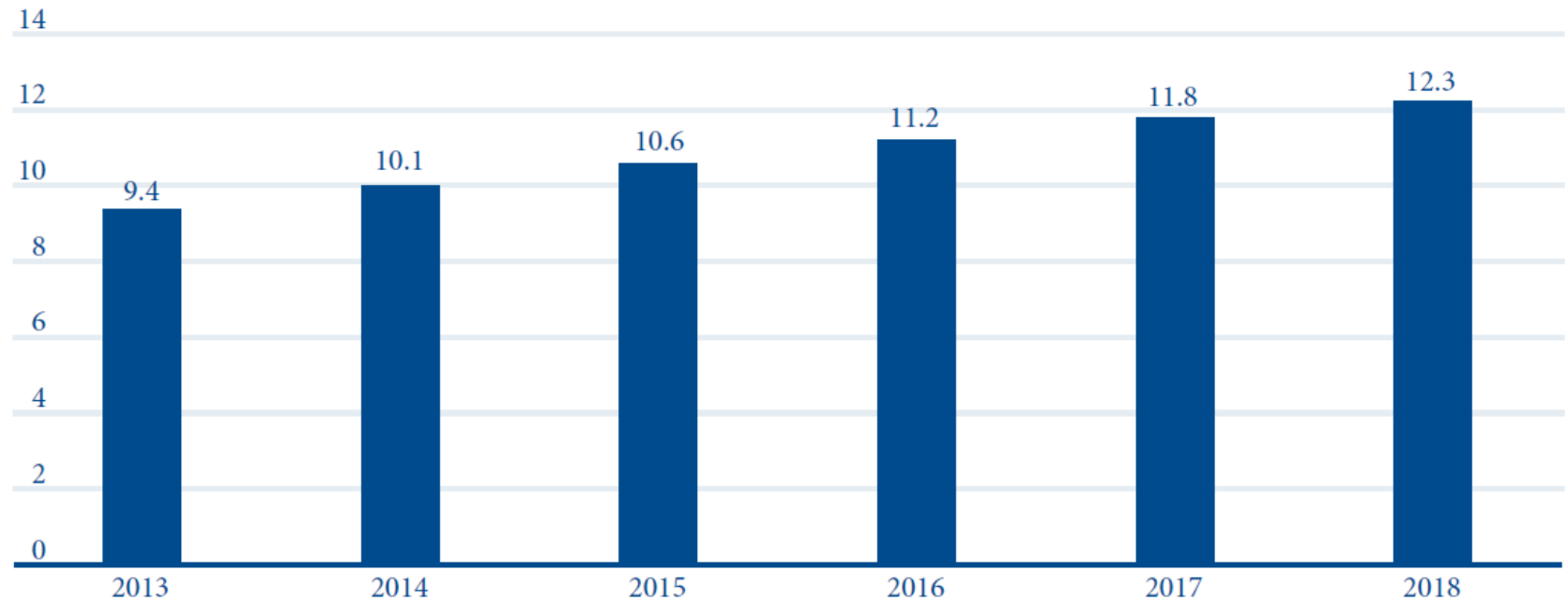
Deposit Growth Slowing

Chart 1

Deposits Increased in 2018, Continuing a Multiyear Trend

Total Deposits of FDIC-Insured Institutions

\$ Trillions



Source: FDIC Summary of Deposits.

Slow But Steady Growth in Revenue and Income

Chart 1

Quarterly Net Income

All FDIC-Insured Institutions

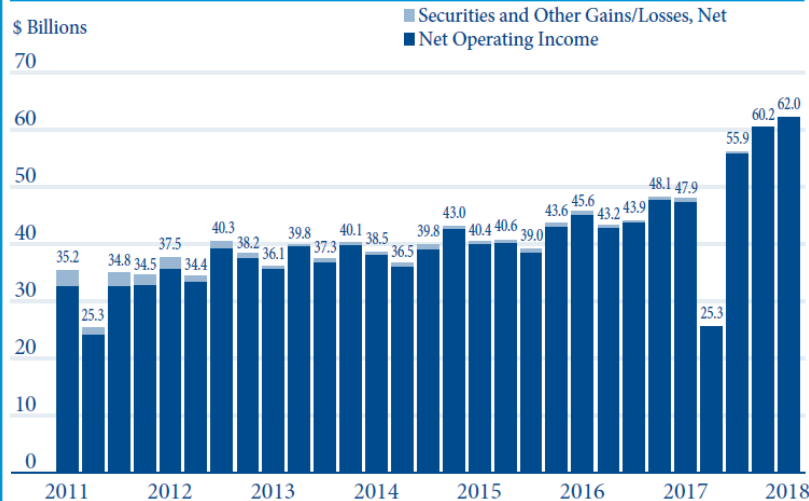
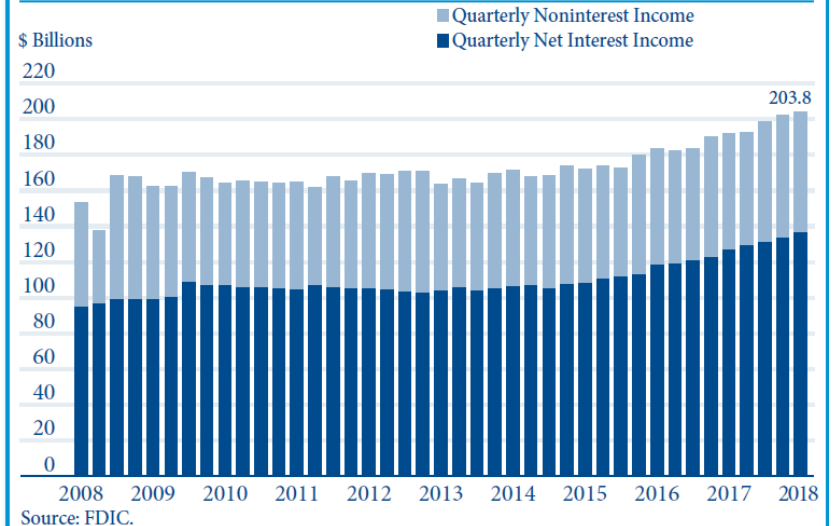


Chart 2

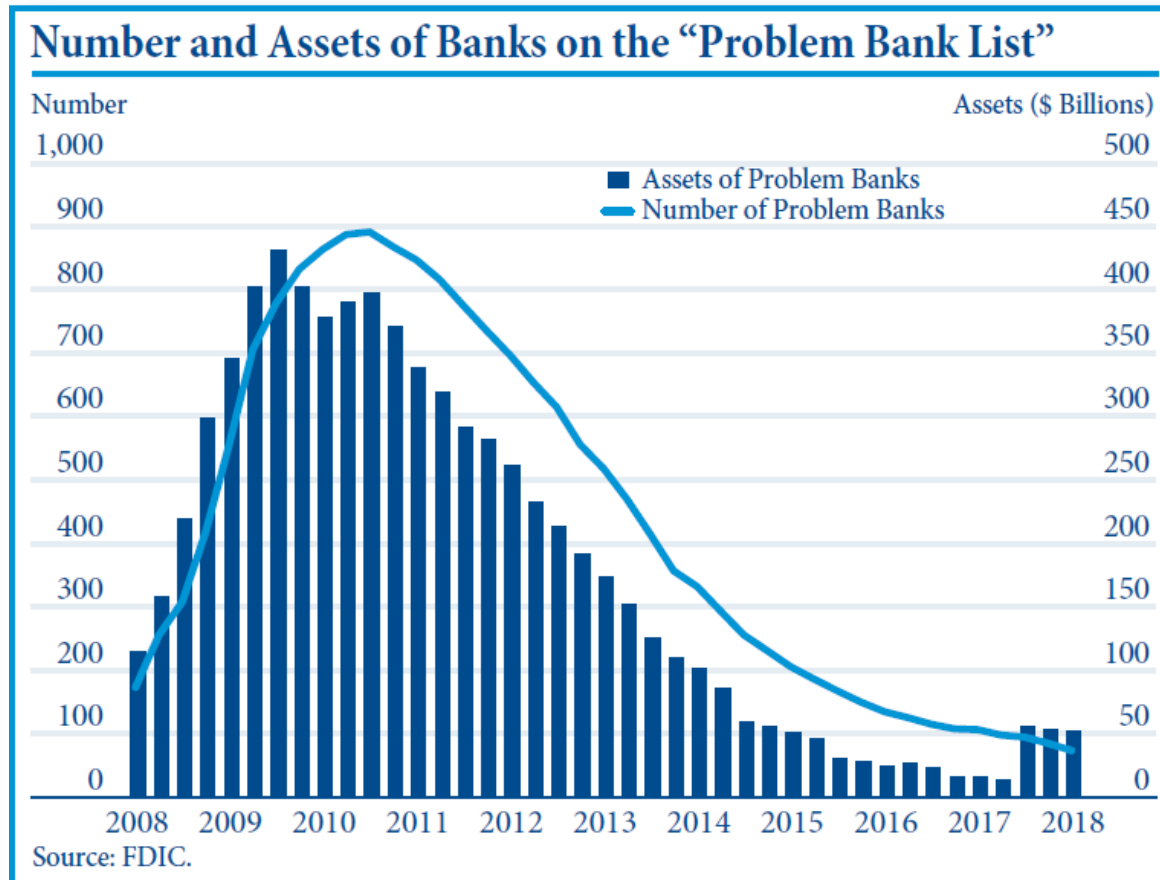
Quarterly Net Operating Revenue

All FDIC-Insured Institutions



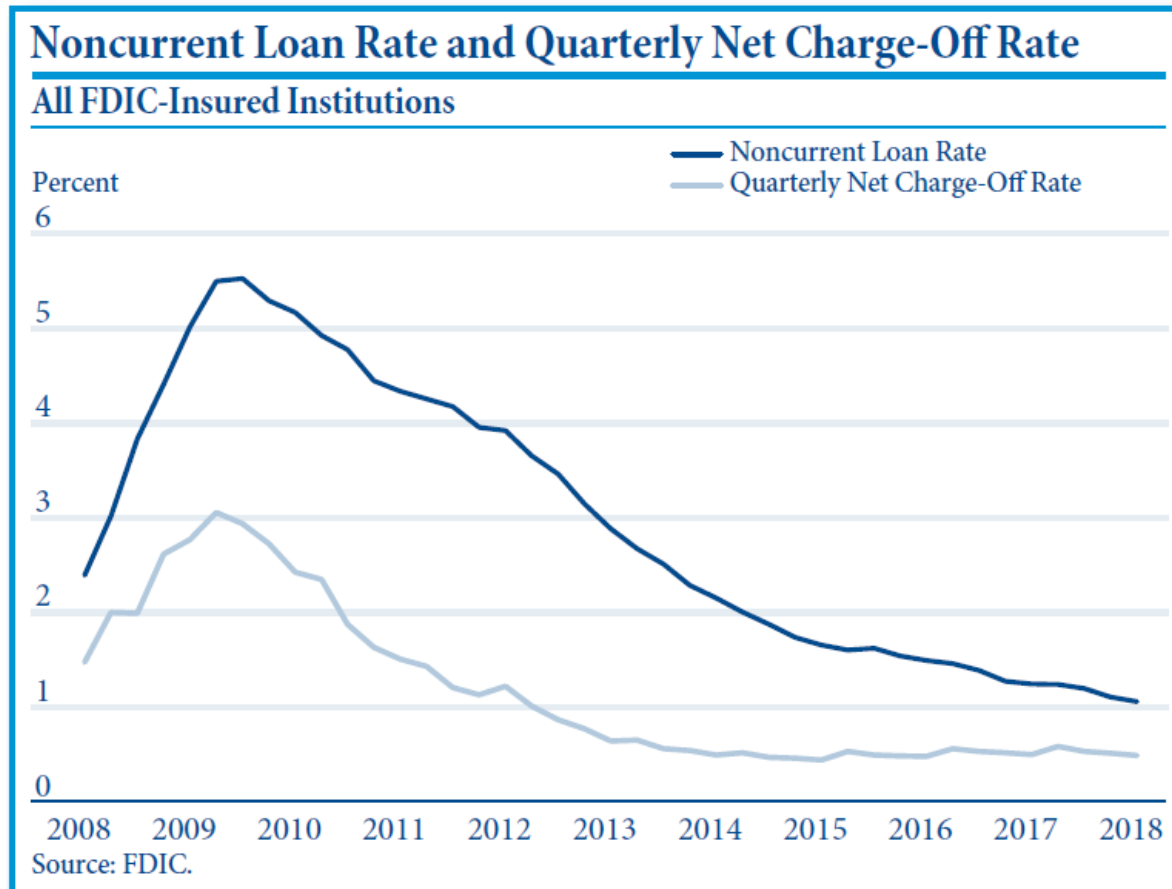
Few Troubled Banks

Chart 7



Few Bad Loans

Chart 3



Local Banking Landscape Has Changed Dramatically

- BBVA
- Fifth Third
- Pacific Premier
- Umpqua
- Citizens
- HomeStreet
- Banner
- Opus
- Endeavor

Feed The Beast

- Banks Have To Lend
- Loans Amortize Rapidly
- \$20B in San Diego
Loans: Must Originate
\$3.0B/YR To Keep Even
- Big Banks Under Political
Pressure To Lend
- ST Treasuries Pay 2.25%
vs. Yield on Bank Loans
of 6.0%

