At the San Fernando Valley Business Journal, our ears are always to the financial ground, and there are a number of questions that we’ve been hearing repeatedly from readers navigating the banking and financial landscapes.

In order to answer those questions, we have once again assembled five of the most knowledgeable banking professionals and financial experts in the region to participate in a Q&A-style roundtable. We’re proud to present this open forum discussion featuring such some of the finest experts on the subjects.

Several questions were posed to this banking brain trust and what follows is a transcript of their responses.
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The great value of a banking relationship is access to knowledge and expertise. Find a banker and a bank willing to take the time to understand your business and be responsive to your needs. You want someone who’s going to work actively on your behalf, and not sit back and wait for questions. 2015 is going to see a lot of change and volatility and you need a banker that can help you navigate that.

SCOTT ANEY

Businesses benefit from services available from nonprofit service providers, including those serving the homeless, unemployed and in need of childcare. Businesses should continue to look for ways to support these organizations, which will support our local economy.

ROBERTO BARRAGAN

What should a business be looking for in a banking relationship in 2015?

Gurney: The business owners and managers we work with are looking for a banking relationship that will provide them with expertise in their specific area and work with them as a Trusted Advisor to help them achieve greater success. There is tremendous value in working with a client focused, relationship driven bank and bankers that will invest the time necessary to truly get to know your business and understand your unique needs. Any bank – big or small – can provide the transactional side of banking, but it takes a team of Trusted Advisors who understand your business to develop programs to meet your exact needs. It is that aspect that gives community banks a distinct advantage over the larger institutional banks that often gain new customers with teaser rates and short-lived promotions but don’t deliver long-term results. We focus on creating the most value for our clients, while being relevant, engaging and delivering solutions.

Misch: To me, this has never changed hasn’t changed in the thirty years I’ve been in banking. Companies should be looking for a bank that will take the time to understand their business and, by so doing, be able to advise and structure a relationship that provides them with a reliable source of credit. To do otherwise risks putting a small businesses primary source of capital, bank credit, at risk. Any company that wants to grow successfully needs that consistent support from a bank.

Clemow: A long-term relationship with a bank continues to be important. At Wells Fargo, we believe will benefit from consistently knowing who the Bank and who their banker is. To deliver on this value proposition, we have tried to push the appropriate level of authority into the market. That having been said, Southern California is made up of many, many sub-markets and the Valley is no exception. Industries such as post-production, building materials and aerospace are often found in the SFV and we have people knowledgeable in those areas the service the Valley.

Aney: To serve the San Fernando Valley well, you need to see it as its own community, with its own sense of place and economic history. At City National, we’re involved in the fabric of this community, and our bankers are active in organizations that advance its interests and bring businesses together. The Valley continues to grow rapidly and has a great advantage over other areas in its access to talented, educated workers and more affordable housing. It’s a great place to start a business.

Clemow: Small Business continues to be important in all our markets including the Valley. Last year Wells Fargo, Launched Wells Fargo Works for Small Business, to deliver the wide range of products, resources, and guidance that will help small businesses take the next step towards their goals. Through Wells Fargo Works for Small Business, we want to do our part to build on this momentum and help more small businesses fully recover and thrive. We also continue to see high value and response from the community and customers for retail banking stores. In the San Fernando Valley, we recently welcomed our Ventura & Hazeltine retail banking store in Sherman Oaks and will be opening another location in the Valley later this year. In 2015, we
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have plans for seven new retail banking locations across the L.A. Metro region.

Barragan: The cost of doing business in the Valley is higher than other regions as well as the high level of government regulation at all levels.

◆ Has the selection criteria changed for businesses looking for capital in 2015? If so, what are businesses looking for now compared to ten years ago?

Aney: Entrepreneurs are looking for customized solutions that are right for their businesses, not one-size-fits-all products. We tailor our loans and financial solutions to each of the entrepreneurs we serve. We don’t push individual products.

Misch: Unfortunately, we are still somewhat in the “overhang” from the Great Recession. During that time, many banks tightened-up on the availability of credit particularly true for newer companies, start-ups and even long-term relationships that had issues. So, entrepreneurs of this type have migrated more and more towards alternative financing sources such as crowd funding, investment funds or similar vehicles. Banking regulation has also played a part in this evolution, which, while justified by the insured nature of banks funding sources (i.e. deposits), has curtailed the desire of many banks to “stretch” for these types of companies. Ten years ago, borrowers like these could count on bank financing. Not as much today.

◆ What financial services products and programs have emerged as popular among your business clients in the last few years?

Gurney: We find more and more financially sound small to mid-sized businesses are “think- ing outside the cash box” and finding Accounts Receivable (AR) Financing to be a great tool because of the unique benefits this type of financing provides to help manage cash flow and grow their business. Another area trending upward is small business lending due, in part, to increased competition, more favorable economic climate, and an increased risk tolerance. Traditional bank financing remains available for businesses that have a solid track record, while Small Business Administration (SBA) loans are suited for newer businesses looking for capital to grow. SBA 7(a) loans can be used by qualifying borrowers to purchase or renovate or refi- nance real estate or to acquire fixed assets, such as heavy machinery or other equipment, restructuring current debt, working capital and in some cases can even be used to fund the acquisition of a new business.

Clemow: Business owners are turning to Wells Fargo for better ways to access and manage cash, and we continue to improve the products and services we offer. Small business owners are increasingly adopting mobile banking to stay on top of business finances – from checking balances to making bill payments – virtually anytime, anywhere. Mobile is the fastest growing channel in company history, and we now have 14.1 million mobile banking customers. We recently announced a new update to our mobile banking phone app that provides customers with the option of selecting Spanish as their preferred language. While mobile and online services are growing fast, our bankers and store team members are as important as ever. We are also having more conversations in our stores with business owners who need advice.

Aney: We have a wonderful solar ownership and leasing program right now that has proven very popular in the San Fernando Valley. And technology also has brought more efficient ways for companies to manage their accounts payable process. City National’s “EASI Link” product is a great case in point. This service creates a secure connection between the client’s general ledger and the bank’s processing systems. Money movement and information reporting are vastly simplified and time spent processing and reconciling transactions is reduced. In effect, the client has a window into the bank, and book balance and bank balance stay in sync. It’s almost made branch visits unnecessary.

Barragan: The availability of capital in a reason- able period of time with reasonable terms is as popular as ever.
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◆ What does your bank look for in an emerging business to invest in?

Clemow: We want to make every responsible loan we possibly can to help creditworthy small businesses. And for 12 consecutive years, Wells Fargo has loaned more dollars to small businesses than any other bank (based on 2002-2013 Community Reinvestment Act government data). Before we extend credit, we are looking for a business to show the following:

• It generates steady cash flow and has the resources to repay new loans.
• Its current debt load is manageable with a strong financial position to manage its debt payments and the ability to take on additional debt.
• It maintains a good payment history, which gives us confidence our customer has the ability to repay.

Responsible lenders only provide a loan when a business shows the ability and character of management. That is an overarching principle and it square one.

◆ How is the current tax landscape affecting your business clients in terms of their banking strategies?

Barragan: Under the current structure, business profitability is penalized while activities covered by capital gains receive preferential tax treatment.

◆ Are there new financing opportunities for businesses in 2013 that perhaps didn’t exist in the past?

Aney: Solar financing, with the combination of tax incentives and lower cost panels, is a great cost-saving opportunity for businesses in California. City National is teaming up with independent solar experts to bring new opportunities to the marketplace.

Barragan: Predatory online lenders are on the rise, i.e. OnDeck, Kabbage and CAN. They promise 48-hour turnaround and deliver crushing repayment terms that result in killing jobs and businesses with their fees.

◆ What is your opinion of the growing list of online lenders targeting small businesses?

Gurney: I believe that growing businesses truly need long-term banking relationships with trusted advisors who demonstrate expertise, experience and dedication to their success. One of the most prevalent obstacles hindering this long-term path to success is the presence of non-traditional financial service providers entering the banking space and offering traditional banking products. These alternative financial service providers compete on price, and while low-cost providers and special one-off promotions may seem appealing initially and save some quick cash, there is truly no long-term value generated for the business.

Misch: I think it is a great thing. The Great Recession has made it more difficult for banks, especially the smaller ones, and more gun-shy about stretching in this area. Also, low investment yields, other than equities, have pushed...
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investors into these types of alternatives. So, this creates a source of capital for smaller, more difficult to finance firms. The downside of this is that many of these "lenders" may not work with you when things get a little sideways. Also, one would hope these guys are regulated. Otherwise, there is the potential for abuse.

Barragan: VEDC is opposed to many of the online lenders that flout APR and convince capital hungry businesses that paying up to 100% percent interest is a good alternative for them.

◆ What are some of your clients’ biggest financial concerns and how are you helping them address these concerns?

Clemow: Today business owners tell us they’re looking to be more efficient, and want help managing cash flow. Since the Great Recession, businesses have decreased expenses, reduced debt and increased liquidity. Those businesses that are looking to borrow are seeking low-risk ways to expand and operate more efficiently, and taking advantage of low interest rates to finance major fixed assets.

Aney: The entrepreneurs we serve are primarily concerned with managing expenses, while also maximizing new revenue opportunities that are springing from the rebounding economy. We understand their businesses and their concerns, and our experienced bankers can help them address these concerns by providing the latest technology and innovative product solutions without adding to the payroll.

Gurney: Cash flow remains one of our clients’ biggest financial concerns. Client businesses continue to look for help improving and managing their cash flow. In many instances, accounts receivable financing helps address those concerns. Having gained acceptance and popularity during the economic downturn, clients have become much more comfortable with this type of lending and the broader understanding of how it influences cash flow.

Barragan: Our clients in LA, Las Vegas, Chicago, New York and now Miami are concerned with being able to access capital below $250,000. VEDC, in partnership with UBS and its Elevating Entrepreneurs program, is offering market rate loans in that range from a $13 million loan fund.

◆ Which industries and markets seem to be showing the most promise today?

Aney: In the San Fernando Valley we are seeing really broad-based growth. Unemployment rates in Glendale (7.4%) and Burbank (6.3%) declined in February with health services, entertainment, aerospace, as well as motion picture and sound recording driving most of the job gains. If it were a city, the Valley would be the 5th largest in the United States, outpacing Philadelphia, Phoenix, and San Antonio. We are home to a huge number of entrepreneurs as well as large companies such as The Walt Disney Co., Amgen Inc., Health Net Inc and Tutor Perini Corp., Teledyne Technologies Inc, and Public Storage. 2015 is off to a great start.

Barragan: We have seen growth in the tourism, media, import, export, and food processing industries.

Misch: In California, technology continues to be a shining star as witnessed by the expansion of Silicon Beach, the up and coming area between Santa Monica and El Segundo. Even Pasadena is trying to foster a similar model. This is something that’s likely to spread given California’s rich technology sub-structure, the availability of venture capital, the key universities in the State which grow “the best and the brightest” in this field and, of course, the weather.

◆ Do businesses have more or less financing options today than they did ten years ago? Why?

The ability of hackers to exploit business owner’s credit, access bank accounts and commit fraud is greater today than they have ever been. To better protect themselves, businesses should regularly check their credit, protect their bank accounts through greater security and take all precautions available.

ROBERTO BARRAGAN

‘Today business owners tell us they’re looking to be more efficient, and want help managing cash flow. Since the Great Recession, businesses have decreased expenses, reduced debt and increased liquidity. Those businesses that are looking to borrow are seeking low-risk ways to expand and operate more efficiently, and taking advantage of low interest rates to finance major fixed assets.’

MARLA CLEMOW

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Barragan: Definitely less, especially for those businesses with less than $1 million in sales. This is because the regulatory and exam environment is such that banks won’t make smaller loans due to higher loan loss reserve requirements.

Misch: They have less. For one thing, the number of banks in the United States has shrunk for over 15,000 to under 7,000. And while other types of credit have become available, it is more mercenary and less relationship oriented than the traditional community bank has been. What has seemed to have blossomed is the availability of equity capital. Low interest rates have pushed money into seeking higher returns and so there are numerous sources available for creative, largely technology related, businesses or companies that or willing to consolidate a market.

Definitely less, especially for those that or willing to consolidate a market.

Misch: The consistency of the economy. While we have seen growth, it is still average. And, while we have seen an increase in hiring, wage and productivity growth has been stagnant. We are going through a period now where the Fed has signaled it is going to raise rates but it is uncertain as to when. They further hedge based on what is going on overseas. This “turbulence” is making companies cautious so they expand slower, hire a little less, buy one less new machine, etc.”

DAVID MISCH

“I believe that growing businesses truly need long-term banking relationships with trusted advisors who demonstrate expertise, experience and dedication to their success. One of the most prevalent obstacles hindering this long-term path to success is the presence of non-traditional financial service providers entering the banking space and offering traditional banking products.”

TAMARA GURNEY

◆ What are the issues that are causing your clients to lose sleep at night?

Misch: The consistency of the economy. While we have seen growth, it is still average. And, while we have seen an increase in hiring, wage and productivity growth has been stagnant. We are going through a period now where the Fed has signaled it is going to raise rates but it is uncertain as to when. They further hedge based on what is going on overseas. This “turbulence” is making companies cautious so they expand slower, hire a little less, buy one less new machine, etc. The dysfunction in Washington only adds to this variability. Teaching staff about these basics can offer superior high-touch service.

◆ How serious a threat to businesses is cyber crime? What can businesses do to better protect themselves?

Misch: At a recent meeting with the Federal Reserve that I attended, the consensus around the room that cyber-crime was the number one risk issue for banks and others right now. That is because the individuals perpetrating these crimes are good, nimble and the rewards are many. The key to protecting yourself from this risk is vigilance and education. For example, most incidents are a result of an employee biting on a “phish.” Teaching staff about these basics represents the very first line of defense. There is obviously the need to have technological infrastructure in place but having smart employees is the difference maker.

Barragan: It’s a significant threat. The ability of hackers to exploit business owner’s credit, access bank accounts and commit fraud is greater...
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Matti Niall, Owner Sweet Bar Bakery

“The financial hurdle to get this location open was great. We went to 4 banks and were turned away every time. For us, finding VEDC and having access to funding made all the difference in getting the store open.”

Greg Horos, Co-owner Locall

“VEDC’s loan helped keep art alive for kids. The loan helped set up a retail front for Palette Station through remodeling, merchandising, purchasing furniture, and art supplies.”

Raymond G. Kubit, CEO Palette Station


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today they have ever been. To better protect themselves, businesses should regularly check their credit, protect their bank accounts through greater security and take all precautions available. Getting advice from a professional on small business risk management will help a business owner prepare for the unexpected.

Gurney: Mission Valley Bank takes the threat of cyber-crime very seriously. In addition to the multiple layers of security that we employ as a bank, we strive to educate our clients regarding the latest threats and trends in order to help ensure the safety of their accounts and personal data. Combating account takeover and fraud is a shared responsibility between businesses and their financial institutions. Mission Valley Bank continues to inform our clients on best practices regarding online banking and data security. We also encourage clients to vigilantly monitor their accounts, update their computer security and provide ongoing training to their staff. While the threat remains, the key to minimizing everyone’s exposure to cyber-crime is education and vigilance.

◆

What are the pros and cons of charitable giving for businesses today?

Misch: I don’t see very many cons. I guess if you are supporting a charity that subjects your company to reputation risk that could be an issue. But otherwise, I think all businesses have an obligation, either through the company or individually through the profits they earn through those companies, to reinvest in the communities they are in. There has to be a happy medium, though, between making a reasonable return and providing ongoing support to their staff. While the threat remains, the key to minimizing everyone’s exposure to cyber-crime is education and vigilance.

◆

What are some common obstacles getting in their way of growing businesses these days?

Clemow: The latest Wells Fargo/Gallup Small Business Index survey, conducted in January, shows optimism among business owners continues to steadily climb. Attracting new customers and new business remains a top challenge for small business owners, but overall, concerns around key issues that can impact their business are less pronounced than a year ago. Each quarter, the Wells Fargo/Gallup Small Business Index survey is conducted to measure small business owner optimism. In the survey, business owners said they anticipate a better operating environment and higher revenues in 2015. They also said they plan to increase the amount of money allocated for capital spending and increase the number of jobs at their company too. Another promising trend the survey revealed is that small business owners have fewer worries than in recent years.

Gurney: Banks cannot be all things to all people. By the same token, not all banks are created equal or focus on the same core competencies. Businesses need to be sure their bank is a good fit for what they need to grow and operate their business. While some banks may focus the lion’s share of their resources on digital space applications, others may focus on creating value for their clients through relationship building. In the future, businesses should expect to discover further differentiation between big banks and community banks as boardrooms do some deep soul-searching to better define their focus and develop smart partnerships.

Aney: Some businesses get the wrong loan - something that wasn’t properly structured for them - and they wind up overleveraged and in trouble. We have worked with many entrepreneurs to get them back on track after finding themselves in this situation.

Misch: Community Bank makes a big effort to keep up to speed with what issues our clients are facing. There are two obstacles I have heard consistently over the past year. First, firms are finding it very hard to find good people. One company recently told me that 1 out of every 2 hires “washes out” within the first three months of hire date. That is tough if you are trying to generate a consistent product and grow. Second, regulation and tax costs in California have led many of the companies we do business with while not leaving to state, to expand beyond its borders rather than inside of them. That is very disappointing to me.

◆

What advice would you give to a business wishing to change to a new bank?

Barragan: Audition them, ask questions, and make sure that they can provide the services you need now and in the future.

◆

Looking to the future, what new banking trends to you think businesses should expect in the coming years?

Barragan: The future will bring more and more online access and services and a growing emphasis on relationship banking rather than transactions.

Gurney: Several years ago we predicted that technology-based products, which were more widely embraced by consumers, would quickly begin to make inroads into the business banking space so that various applications businesses use to operate would be interconnected seamlessly and communicate with banking products to increase efficiency, reduce errors and enhance security. The expansion of services and leveraging of digital technologies to elevate the customer experience has now become a focused objective. In today’s intensely competitive, low-growth, low-margin environment, banks continue to operate with an eye toward trimming expenses and enhancing the client experience. With the ever-increasing popularity of online and mobile banking, what customers need from their bank has changed. No longer is it necessary to have a bank location on every corner. In fact, bank branch consolidation is happening throughout the nation in response to customer preferences, changing behaviors and new systems in place for delivering banking services. Brick-and-mortar branch footprints are declining as banks reinvest the dollars saved into remote digital services, development of digital channels, and expansion of core financial products and services. Regulatory compliance and cybersecurity will continue to dominate top management’s time, attention and resources.