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 three 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 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.
What are the new banking opportunities for businesses in 2016?

Clemow: Last year, we expanded the resources and support we offer through Wells Fargo Works for Small Business, including the recent launch of the Business Plan Center, available on WellsFargoWorks.com. Within the Business Plan Center, business owners have access to a free, step-by-step Business Plan Tool to create or update their business plans, as well as a Competitive Intelligence Tool that provides key insight on their business and competition within the industry that can be used as part of the planning process. In some instances, a written plan may be required to obtain financing. Our goal is to provide guidance that will help small businesses take the next step towards their goals.

How can a business maximize its relationship with its bank?

Clemow: I believe the first step in maximizing your banking relationship is confirming that your bank is actually the right bank for your business. Often, smaller to mid-sized companies may find that they are simply 'lost in the shuffle', particularly if they have not cultivated a relationship with their banker. Make the time to connect with your banker. If you don’t know who your banker is, find out. At Mission Valley Bank, our goal is to see our business clients several times a year. It may sound old school, but that face-to-face time is invaluable. It allows us to reconnect and stay relevant, providing both our bankers and clients the opportunity to quickly evaluate how things are going. We are able to determine if current products and/or services are still the best fit for the client’s needs or if it’s time to make some adjustments. Taking the time to share your goals as well as your challenges strengthens your banker’s ability to identify the best solutions for your business.

In what ways are doing business and banking in the Valley different from other regions?

Clemow: Small business continues to be important in all our markets including the Valley. We appreciate the important role that small businesses play in local communities and the overall economy. In an improving economy, small businesses have the opportunity to secure a great loan product with excellent terms, and help make 2016 the launching pad for future success. We take great pride in of our year-over-year growth in the number of SBA loans we have extended because it shows we are meeting the credit needs of even more business owners, particularly smaller, newer businesses and diverse-owned businesses. 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 two new retail banking locations, Ventura and Hazeltine.

Are there any trends you are seeing in what Valley-based business borrowers are doing with the financing you provide?

Gurney: Traditional commercial financing remains a staple. Qualified borrowers have a wide variety of lending options to choose from and today’s favorable rate environment, paired with the improving economic outlook, have more and more businesses considering financing to support growth and expansion. While not specific to the Valley, Accounts Receivable (AR) financing continues to grow in popularity among financially sound small to mid-sized businesses. It offers businesses a great tool because of the unique benefits this type of financing provides to help manage cash flow and grow their business. Small business lending also continues to be a great alternative for many small businesses. Small Business Administration (SBA) loans are well suited for businesses looking for capital to grow. SBA 7(a) loans can be used by qualifying borrowers to purchase, renovate or refinance real estate or to acquire fixed assets, such as heavy machinery or other equipment. It can also be used to restructure existing debt, acquire working capital and in some cases can even be used to fund the acquisition of a new business.

Are there financing options for businesses today that perhaps didn’t exist in the past?

Fernandez: The market is now flooded with predatory online lenders, merchant cash advance programs, and payday lenders. Many business owners are in need of the quick cash infusion these programs offer and don’t realize they will be paying upwards of 50% interest and the strain that will put on their cash flow.

Gurney: While no really “new” financing options have hit the market, many have evolved over the past decade, driven primarily by technology, which has expanded delivery channels. There has been a proliferation of Internet based non-bank entities providing transactional financial services to both consumers and business owners. During the recession, many businesses delayed making necessary improvements to facilities and/or equipment. As both the economy and profits continue to improve and rates remain low, businesses once again have the confidence to invest in the growth of their companies. While the Internet is awash with information and numerous financial alternatives, depending on a business’s specific needs we find the consultative approach provided through a banking relationship most often produces the best solution for the borrower. Business borrowers have a wide variety of financing options to choose from. By working with their bank, borrowers can determine what financing option best suits the needs of their company.

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

Clemow: 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 know people love their phones and they use apps for just about everything. For that reason Wells Fargo continues to update and add new features to its mobile application, which allows users to access products and services that they need; from ATM locations to help them...
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 Cash flow remains one of our clients’ biggest financial concerns. Businesses continue to look for help improving and managing their cash flow. Case in point, Mission Valley Bank sponsors several business-management-focused workshops annually. By far, the best-attended workshops every year are those focused on understanding and managing cash flow. In some instances, a line of credit or accounts receivable financing can help alleviate concerns over cash flow issues, allowing the business owner some flexibility to manage seasonal or occasional shortfalls. Since it is an election year, many conversations also turn to the political landscape on both a national and local level. Many business owners talk to express concern over the various initiatives before our legislature that have the potential to have a negative financial impact on their businesses. The widespread perception is that California is not a business-friendly state and we continue to see some small business owners relocating out of state or moving production off shore.

Have you noticed an increase in businesses expanding? If so, can that be contributed to a recovering economy?

At VEDC, we have seen an increase in the expansion of businesses, which is directly correlated to the increase in jobs being created in the area resulting in a boost to the economy. Over the past year, we have provided $14 million in financing to 334 businesses, resulting in the creation and retention of 2,174 jobs in the Los Angeles metro area. In addition, we have seen an increase in the push to finance startup businesses. These new and expanding businesses are the key to job creation and a stronger economy for all of Los Angeles.

Small business owners have a range of financing options to consider for their specific needs, including conventional business term loans and government-guaranteed term loans. For many small businesses that need funds for a real estate purchase and expansion, or to acquire another business and manage cash flow, the SBA (7)a term loan is a great option to consider. The best way to know if an SBA loan is the right option for your business is to talk with your banker. At Wells Fargo, we’re committed to helping small businesses succeed financially. SBA lending is an important way we provide business owners the financing they need to build their businesses. A full-service provider of financial services can you help you evaluate all of your financing options, including SBA loan products, and provide guidance to help your company achieve new levels of success.

Has the growing number of online lenders affected your lending and/or clients?

Absolutely, the growing number of online lenders has impacted both our small business lending operations and our client’s financial position. The practices that are most concerning in regards to online lending are the following:

1. Lack of Transparency. Since fees associated with these loans are often reflected as a “Buy Rate” and not an APR, the majority of clients notify the bank if they are traveling out of the country. Through our mobile app you can also now connect directly to customer service phone lines. You start on your mobile phone but if you get to a point that you need to talk to someone it’s a quick and easy push. The banking professional on the other end will already have all the necessary information about the client’s needs thanks to a one-time security token for identity verification generated by the mobile application. 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.

Have you seen an increase in clients seeking funding to pay off high interest rate loans?

As an alternative lender, VEDC has seen a significant increase in clients seeking to refinance high interest rate loans, particularly those associated with online lenders such as Kabbage, On Deck, Rapid Advance, etc. Business owners are reaching out to VEDC requesting the refinancing of these credits due to the high daily, weekly or monthly payments being withdrawn from their business’s account. The majority of these loans are short term, and the combination of the high cost money and short-term repayment, are negatively impacting the cash flow of the business. The result is a strain on operations, and we see an increase in our clients stacking loans in order to pay the existing loan. This becomes a vicious cycle for the business owner some flexibility to manage seasonal or occasional shortfalls. Since it is an election year, number of businesses are seeking financing to support the infrastructure and growth of their companies. The majority of clients I speak with have a much more positive outlook and are once again looking ahead. Many businesses are taking advantage of continuing favorable interest rates to finance needed updates of infrastructure, such as facilities, equipment or technology. While I believe we all remain a bit more cautious than a decade ago, our local economy is trending up – as is the attitude of local business owners.

While the recession caused many businesses to postpone plans for growth and expansion, the environment has changed. As the economy continues to improve, an increased number of businesses are seeking financing to support the infrastructure and growth of their companies. The majority of clients I speak with have a much more positive outlook and are once again looking ahead. Many businesses are taking advantage of continuing favorable interest rates to finance needed updates of infrastructure, such as facilities, equipment or technology. While I believe we all remain a bit more cautious than a decade ago, our local economy is trending up – as is the attitude of local business owners.

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

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What are some of your clients’ biggest financial concerns this year?

Cash flow is one of our clients’ biggest financial concerns. Businesses continue to look for help improving and managing their cash flow. Case in point, Mission Valley Bank sponsors several business-management-focused workshops annually. By far, the best-attended workshops every year are those focused on understanding and managing cash flow. In some instances, a line of credit or accounts receivable financing can help alleviate concerns over cash flow issues, allowing the business owner some flexibility to manage seasonal or occasional shortfalls. Since it is an election year, many businesses are looking at taking advantage of continuing favorable interest rates to finance needed updates of infrastructure, such as facilities, equipment or technology. While I believe we all remain a bit more cautious than a decade ago, our local economy is trending up – as is the attitude of local business owners.

GURNEY: Tech-based products, which are widely embraced by consumers, have quickly begun to make inroads into the business banking space. Various applications businesses use to operate are integrating and connecting 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 continues to be a focused objective throughout the industry. Because of today’s competitive, low-growth, low-margin environment, banks continue to operate with an eye toward trimming expenses while enhancing the client experience. The advancement of online and mobile banking has forever changed what customers need from their bank. No longer is it necessary to have a bank location on every corner and bank branch consolidation continues throughout the nation in response to customer preferences, changing behaviors and new systems. As brick-and-mortar branch footprints decline, banks are reinvesting those dollars saved into remote digital services, development of digital channels, and expansion of core financial products and services.

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are truly unaware of what the actual interest rate is or the bottom line to repay the loan.

2. Prepayment Penalties. Prepayment costs are tied to these transactions, so even though the client may be coming to VEDC to refinance for a lower rate, they are still responsible for repaying the full amount plus their interest (i.e. $100,000 loan equates to a repayment of $130,000).

3. Debt Traps and Loan Stacking. Merchant cash advance and online high interest rate loans are debt traps that often result Loan Stacking where we see clients that can’t afford to keep up with their payments and continue to obtain additional loans in order to make the previous loan payment. It’s a cycle that causes many businesses to close their doors.

4. Broker Abuse. Many brokers approach business owners knowing these are not good loans; however they receive fees associated with closing the deal so they will continue to sell usurious business loans to their clients, without being 100% transparent.

GURNEY: In reality, online lending has not had a significant impact on our client base. As a dedicated community banker, my philosophy is that growing businesses need long-term banking relationships with trusted advisors who provide guidance, experience and expertise to best determine an appropriate financing solution. Today’s techno-savvy environment provides a myriad of options...some good, some not so good. The majority of these alternative financial service providers compete solely on price and may not provide the best solution for the borrower, which often times is best determined through a consultative based relationship. Mission Valley Bank recently launched a hybrid that we believe offers the ease and convenience of ‘shopping’ for a business loan online, while keeping the trusted advisor role in the equation. Our Commercial Lending Center is an online portal where borrowers answer a few basic questions about their business and what they are looking for with regard to financing. Once the initial information has been submitted, the borrower receives a call from an experienced business lender (within one business day) to discuss options available to them. The Commercial Lending Center affords tremendous convenience, while still providing the one-on-one communication needed to best serve the client’s needs.

What can businesses do to better protect themselves from cyber-crime?

GURNEY: Cybercriminals target small businesses with ever-increasingly sophisticated attacks. Spoofed emails, malicious software and online social networks to obtain login credentials to businesses’ accounts, transfer funds from the accounts and steal private information are on the rise. Corporate account takeovers – a type of fraud where thieves gain access to a business’ finances to make unauthorized transactions – creates havoc and loss. Funds may be transferred from the company, new fake employees created and accounts closed. Business owners need to protect themselves with online activity.

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

FERNANDEZ: The ongoing obstacle for small business owners is lack of education on access to capital. Lately, everywhere you look it appears that capital is easy to obtain and can be received within 24 hours (advertisements, commercials, brokers). If you own a business you will receive a call or a mailer that you can get up to $500,000 for your business, very quickly. However the lack of transparency associated with this kind of debt can be a death trap for a company. Business owners need to be educated or better informed of the various forms of capital to them. If a bank is unable to provide financing, they should refer the client to a CDFI’s (non-high interest money) versus predatory online lenders. Education is the key.

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

CLEMOW: We recognize that small business owners are among the busiest people in our community. It’s easy to become solely focused on the day-to-day functions of running a business, yet it’s important to set boundaries between work time and personal time, especially when operating a small business out of the home. Having a support system to lean on is a huge asset for any business owner, but it’s especially important when starting out. We encourage business owners to seek advice, experience and connections of their peers when starting out. This can be a great way to share contacts and build connections with fellow business owners in the community. It’s also important that business owners establish a relationship with a business banker, lawyer and an accountant who can help keep their business organized and on a growth trajectory.

GURNEY: Look for a bank that understands your business’ needs and goals. It’s a simple concept, but difficult to achieve if you are not with a bank that’s a good fit for you. Any bank – big or small – can provide the transactional side of banking, but it takes a hands-on approach for a banker to understand your business to develop programs to meet your exact needs.

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

CLEMOW: We think it’s important for every financial services provider to find more ways to support small business owners. We are the nation’s top lender to small businesses, based on Community Reinvestment Act data. We are deeply committed to helping small business owners access the capital they need to operate and grow their business, and a formal, written business plan is the foundation for long-term financial success. Our leading position across many of our businesses is important because it reflects how well we are serving our customers — individuals, households, businesses, and corporations — who make up the “real economy.”
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