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How Small Businesses Can Increase Their Ability To Qualify For A Loan In Today's Market

by Glenn Gray, President and Chief Executive Officer, Sunwest Bank

There are a few "rumors" going around regarding small business lending which bear fact checking.

Rumor: **Big banks are bad, and small banks are good.**

Fact: Size is not the issue. The issue is the safety and stability of a bank. Some banks are currently in a good financial condition, while others are not. Some banks are currently able to lend because they have received TARP funds; while other banks, such as Sunwest, which did not accept TARP funds, are still able to lend because they stayed true to their credit discipline and did not make speculative loans with loose terms just for the sake of achieving short-term gains.

Rumor: **We are in a credit crisis, and therefore banks are not lending.**

Fact: Yes, and no. We are in a credit crisis thanks to the greed of lenders, borrowers and Wall Street, and a disastrous interest rate policy promoted by the previous administration of the Federal Reserve. However, despite the credit crisis, some banks are still lending – for the right reasons. There are two reasons businesses require capital. The first is to fund growth, which remains a legitimate reason for banks to lend. The second is to fund losses, which is the role of equity, not debt. Even in the midst of a downturn, some businesses grow and thrive. In fact, great fortunes have been made during times of economic turmoil. At Sunwest, we want to fund growth, and we are continuing to find and lend to businesses that are growing.

Rumor: **Lending standards are the tightest they've ever been.**

Fact: Many banks have tightened their lending standards, whereas some banks have not needed to change their standards because they remained prudent during the period of unreasonable practices.

Many banks have turned back the clock to a time before lending became too easy, and in some cases sloppy. Today's lending standards are more similar to those in practice 10 years ago when loans were done as they should be; based on a serious examination of the prospective borrower's ability to use the loan wisely and make its payments on time. Today's standards are simply more rationale than they were two years ago.

Rumor: **If a business doesn't have a perfect track record, no bank will even think of lending to it.**

Fact: Bad things can happen to good businesses; that does not make them un-bankable. What is equally important to understanding what happened, is gaining an understanding of how a company dealt with issues, how they faced their challenges. We like to know if the company anticipated the challenge; what they did when they realized it was coming – did they adjust? Did they diversify? Did they have a Plan B?

We currently have a client that is a great example of a company that had a serious problem and came back stronger. Shortly after the CEO and his business partner bought the firm the company lost a huge client. Fortunately the company was not over-leveraged. They recovered by scaling back internally, diversifying their client base and using strong financial discipline (i.e. not wasting money). They postponed their plans to borrower because they knew they would not be an ideal candidate for a loan at that moment, they would need to follow their Plan B.

Once they recovered from their troubled position, they presented their new business plan to eleven banks that competed for their business. Sunwest Bank was selected because our loan officers listened and took the time to understand the nuisances of their business. Today, our customer is a conservative user of credit, has a well diversified customer base, has added manufacturing capacity to serve many more customers and they continue with their excellent financial reporting. This client is also a good partner with the bank because they share their strategic plans with the bank, so that there are no surprises, and we can help fund their growth.

Rumor: **As long as my business shows a profit, banks will lend to me.**

Fact: Beyond just the bottom-line, bankers should want to know how it was achieved and if it is sustainable. Spending a little more money for good financial accounting is a wise investment in a company's future. To be bankable, a firm should live within its means and resist pulling out all profits at the end of the year. By being sensible about expenses and distributions, a company can keep part of its profit within the company and build a net worth for the organization, thus making the company more bankable and a good candidate for a loan should they need one.

Also, having a clear business plan is important, whether it is written or just oral. In either case, in order for a bank to understand a company's business plan, and therefore judge if a loan should be made, the company executives should be able to clearly spell out where they are, where they are going, and how they intend to get there.

Just as Sunwest Bank avoided the negative behavior that is damaging the banking industry by being sensible in our business approach, we seek to lend to companies that are clear in their thinking.

Rumor: **If a bank passed the Stress Test, or wasn't even tested, they must be a good bank.**

Fact: The Stress Test was hardly stressful, and it was only applied to a handful of the largest banks in the country. Similar to banks conducting due diligence on its clients, bank clients and prospective clients should conduct due diligence on their bank or prospective bank. Bank customers should not just take bank ads or sales pitches at face value; they should learn about the bank they may select.

Luckily, the financial statements (aka Call Reports) for all banks are a matter of public record and can be found through the FDIC's Web site. Therefore, bank clients can check out any bank to review its balance sheet, profitability, liquidity and other important factors to help determine if the bank will still be there when the client is ready to tap into its line of credit, get another loan or just know that its deposits are safe.

Successful banks ask prospective borrowers good questions. Likewise, prospective borrowers should ask their banker good questions. If the calling officer cannot answer those questions, the borrower should continue to move up the ladder of the bank until the questions are answered to the borrower's satisfaction. And if the bank isn't answering the tough questions, or the top executives are unreachable, then that, itself, is an answer.

Glenn Gray
President & Chief Executive Officer
Sunwest Bank

Additional information about Sunwest Bank is available at www.sunwestbank.com, or by calling Glenn Gray directly at (714) 730-4401.

Tips for Surviving an Economic Downturn

by Joseph Benoit, Small Business Banking Executive, Union Bank, N.A.

During these uncertain economic times, our small business bankers, like those at other banks, are hearing two main concerns from customers these days: They want to know what it takes to obtain loans, and they want help managing expenses and cash flow.

When addressing expenses and cash flow, it is vital to have a working business budget to determine if the direction of your business is aligned with your goals. If you need help creating a budget, analyzing your balance sheet and sorting through your expenses, it's time to call a trusted professional. Talk to your small business banker or financial advisor. Be proactive: if they're not calling you, call them.

Review each expense line of your budget and find ways to cut costs that are not absolutely necessary for the bottom line.

Here are several specific points of advice that may help you manage expenses:

- **Trim inventory levels.** Evaluate your inventory turnover ratios by product line and consider offering deep discounts for products that are not moving as rapidly as others. Be cautious and reorder for committed orders only when budgets are tight.
- **Let positions stay unfilled.** When it comes to staffing, if an employee position is vacated, consider leaving the position unfilled and pool the resources of your current staff to help handle the workload. You may also want to consider part-time or temporary services for help.
- **Eliminate excess.** Sell or recycle machines that you only use occasionally, or bought as a "want" during better times. Negotiate to lease or rent equipment and software only when you need them.
- **Negotiate terms.** Negotiate to lengthen payment terms or earn discounts with long-time vendors. Consider renegotiating lease terms, especially with landlords facing high vacancy rates.
- **Be conservative about seeking credit.** Review all outstanding credit on your books, and if you decide to pursue new credit, go beyond the application to document in detail how you've cut costs and managed for success.
- **Manage your budget.** Create weekly reports to monitor expenses. Take steps to curtail spending that exceeds the budget.
- **Trim the luxuries.** Discontinue unnecessary subscriptions or services that were nice perks during better times. Reconsider upgrading software and technology unless it truly is an integral part of your business. This may also be a good time to review employee benefits.

Staying on top of your receivables is also essential to your business' cash flow. To remain a step ahead, consider creating or improving your collection strategy.

Develop or re-organize your collection strategy to establish a reliable system that tracks when payments are nearing their due date and immediately alerts you as they become overdue. If you need help, consider purchasing software specifically designed with this purpose in mind or consult with your banker for suggestions to help you get started.

Once your receivables system is in place, establish a firm payment policy and create a written agreement clearly delineating your payment guidelines so there is no room for client misunderstandings. Have your clients sign this agreement before providing your products or services. Given the current state of the economy, be conservative and don't extend terms beyond 30 days. If you already have a contract that goes beyond 30 days, consider offering a discount for faster payment. Don't extend credit or terms unless you've verified that a customer is in a position to repay.

Also key to your collection strategy is having a prepared "past-due" letter outlining the consequences of missed payments. This letter should be ready to send as soon as a payment is late.

In addition to the letter, call your clients immediately to advise them of the late payment. Perhaps there is a good reason you have not yet received payment. If you have a longstanding relationship with a client who has historically paid on time, you may consider giving that client some flexibility. Otherwise, be firm and explain that your business depends on the reliable payment of your clients.

If your efforts to collect are not working, consider enlisting the help of a collection agency. The risk of bad credit may be just the motivation your client needs to make a missed payment.

Additional tips to help with the revenue side of your business include:

- **Create weekly revenue reports**. By examining your revenue reports each week, you can immediately investigate shortcomings and take action.
- **Clients**. Is there business you've turned away in the past because it was "too small?" No account is too small in today's environment, provided the work you do for them generates a profit.
- **Cash accounts.** Look for a strong bank that offers fair market rates on their deposit accounts. Banks in need of capital often offer exorbitant rates to win business. So, remember the old saying, "If it sounds too good to be true, it probably is." Consider depositing excess cash in small business premium money market funds, and putting long-term capital in 12-month CDs.

By reviewing both the expense and revenue sides of your business and determining which areas may need changes, you can help maintain cash flow. When better times are upon us again, this exercise in added discipline and thrift will become a routine you can continually count on to help your bottom line.

Joseph Benoit is the small business banking executive for Union Bank, N.A., a full-service commercial bank providing an array of financial services to individuals, small businesses, middle-market companies and major corporations. Union Bank is California's fifth largest bank by deposits. The bank has 335 banking offices in California, Oregon and Washington, and two international offices. UnionBanCal Corporation is a wholly-owned subsidiary of The Bank of Tokyo-Mitsubishi UFJ, Ltd., which is a subsidiary of Mitsubishi UFJ Financial Group, Inc. (NYSE: MTU). Visit www.unionbank.com for more information.

Capital Punishment? Foreign Investment Meets Domestic Legislation

by Bill Armstrong and Stu Myhill

Several months ago we looked at the difference between pre- and post-tax effective rates of return on a foreign acquisition or merger. With that same theme in mind, we thought we'd look at the real cost of capital and where U.S. tax policy is headed.

Borrowing, 1950s Style

We realize it might be a little difficult to set the scene as if we were in the 1950s—there probably weren't cool things like interest default swaps, auction rate securities, or structured investment vehicles back then—but let's give it a try. At that point in our history, most middle-market companies didn't worry about the global capital market. Most U.S. businesses were just that: U.S. businesses. They procured in the U.S. They sold in the U.S. They had U.S. customers and U.S. lenders. Only the smallest segment of companies dealt with a global economy, and the rank-and-file borrower would simply compare interest rates offered by lenders and the associated closing costs, legal fees, etc.

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Borrowers could always count on a couple of stable critical assumptions when modeling their cash flows: First, interest expense was tax deductible; there were very few limitations and very few modifications to the deduction. Second, real cash was fungible. Since the tax code generally recognized this economic reality, there was less emphasis placed on the actual lender. There were several instances in which related party lenders could generate unexpected tax benefits, but in those cases a couple of small rules closed most of those doors. In other words, you didn't have to worry about *whom* you borrowed from. Whether you borrowed from Bank A or Bank B, the tax effect was the same. If the interest rates were 10 and 12 percent, respectively, the tax effects would be proportional between the two loan packages.

Bill Armstrong, Partner, International Tax

In an effort to simplify their spreadsheets, CFOs and treasurers would simply ignore the tax consequences of the borrowing, since it was same between facilities. It was simple. It worked.

Borrowing, 21st Century Style

Over the past 50 years, things have become more complex—but not drastically so. In an effort to curtail expatriation of capital, the federal government implemented a series of laws designed to increase the tax costs associated with borrowing that involved moving capital outside the U.S. Most are applied only in the most rare of circumstances and therefore generally don't apply to the vast majority of borrowers. For example, in some situations, borrowing in the U.S. to acquire a foreign target could result in deferral of interest deductions for U.S. tax purposes, thereby increasing the real cost of the borrowing.

Another example is inbound borrowing from a foreign parent company, which often results in an overleveraged U.S. company. To reduce the expatriation of capital, the federal government limits the deductibility of such interest—again, resulting in an increase in the true effective borrowing rate.

By and large, the legislative history behind these statutes has been a focused effort by Congress to limit relatively isolated practices. They were designed to foster domestic borrowing and investment in domestic capital.

Borrowing, Brave New World Style

A trend has started to emerge: U.S.-based multinationals are increasingly being penalized for deploying capital outside the country. In December 2008 the Treasury Department issued final and temporary regulations that, when implemented, will result in a substantial increase in U.S. tax on many U.S.-based multinationals. Under these regulations, affected taxpayers will more likely be subject to U.S. tax on their foreign investments and will no longer be able to defer their foreign earnings. The result is a reduction in the ROI for such foreign investments. These regulations passed largely unnoticed (except in the tax world and in a couple of very large multinationals who've figured out the substantial disadvantage they'll be in when the regulations go into effect).

But that's only half the story. Sure, these regulations will reduce the incentive for foreign deferral. But they'll also dampen the impetus for foreign investment. The theory is that many companies will chafe against the increased cost of operating foreign businesses and decide to migrate these businesses back to the U.S.

The Obama administration has announced that it intends to substantially expand the simple limitation on isolated nondeductible interest to affect every U.S.-based multinational company (regardless of structure or intent). The road map is already in place: The Democrats proposed legislation (under the Bush administration) that called for a deferral of U.S.-based deductions that relate to foreign operations. The bill didn't pass into law. But with the Democrats nearing a filibuster-proof majority in the Senate, similar legislation will have a much clearer path today.

Stu Myhill, Senior Manager, International Tax

Sounds innocuous, though, doesn't it? When layered on existing rules for interest-expense deductions, it would result in a limitation on interest expense incurred for factoring your U.S. receivables if you have a foreign subsidiary. In fact, as originally proposed, if a U.S.-based company has a foreign subsidiary, many of its U.S. based deductions will be limited, interest being only one. Others would include shared services such as executive-office costs, HR costs, IT costs, and so on. Now whether you borrow from Bank A or Bank B will have a material impact depending on who Bank A is, who Bank B is, and where you need to use the money. The idea being that it would now be more tax advantageous to borrow from a foreign bank to capitalize your foreign operations. Taking the thought further, it would be more tax advantageous to have your global HR function in a location that didn't limit the deductibility of salaries. All of a sudden, it's not so innocuous.

A quick example: If a U.S.-based company borrows at a 10 percent rate and receives a full U.S. and California tax deduction for the interest expense, the effective borrowing rate is really 6 percent. Under the anticipated legislative changes, the borrowing rate could be a real 10 percent—that would mean a 65 percent difference in cost depending on whom you bank with and how you structure your borrowing. Now if you look at your real rate of return on how you deploy that capital, tax has a material impact.

> A trend has started to emerge: U.S.-based multinationals are increasingly being penalized for deploying capital outside the country.

What Happens Next?

Tax law will change directions like the wind—it almost always results in a state of equilibrium. The real question is whether your company will end up paying for global stimulus through increased taxes or benefit by being prepared for the changes to come.

ABOUT MOSS ADAMS LLP

Moss Adams LLP is the 11th largest accounting and consulting firm in the United States, and the largest headquartered in the West. The firm has 20 offices in five states with staff of over 1,900, including more than 250 partners.

Moss Adams is structured around industry groups to provide a team of specialists that know the details and intricacies of your industry. The firm's primary practice groups include Apparel, Construction, Dealership Services, Financial Institutions, Food Processing and Agriculture, Health Care, Manufacturing & Distribution, Not-For-Profit/Government, Real Estate, and Technology & Life Sciences. Moss Adams offers not only traditional accounting, audit, and tax services but also a wide range of consulting and specialty services.

With its growing team of technical specialists, each focused on clients, Moss Adams can help your organization in a variety of areas, including cost segregation, multistate and international tax, business valuation, internal audit, information technology, succession planning, and litigation support.

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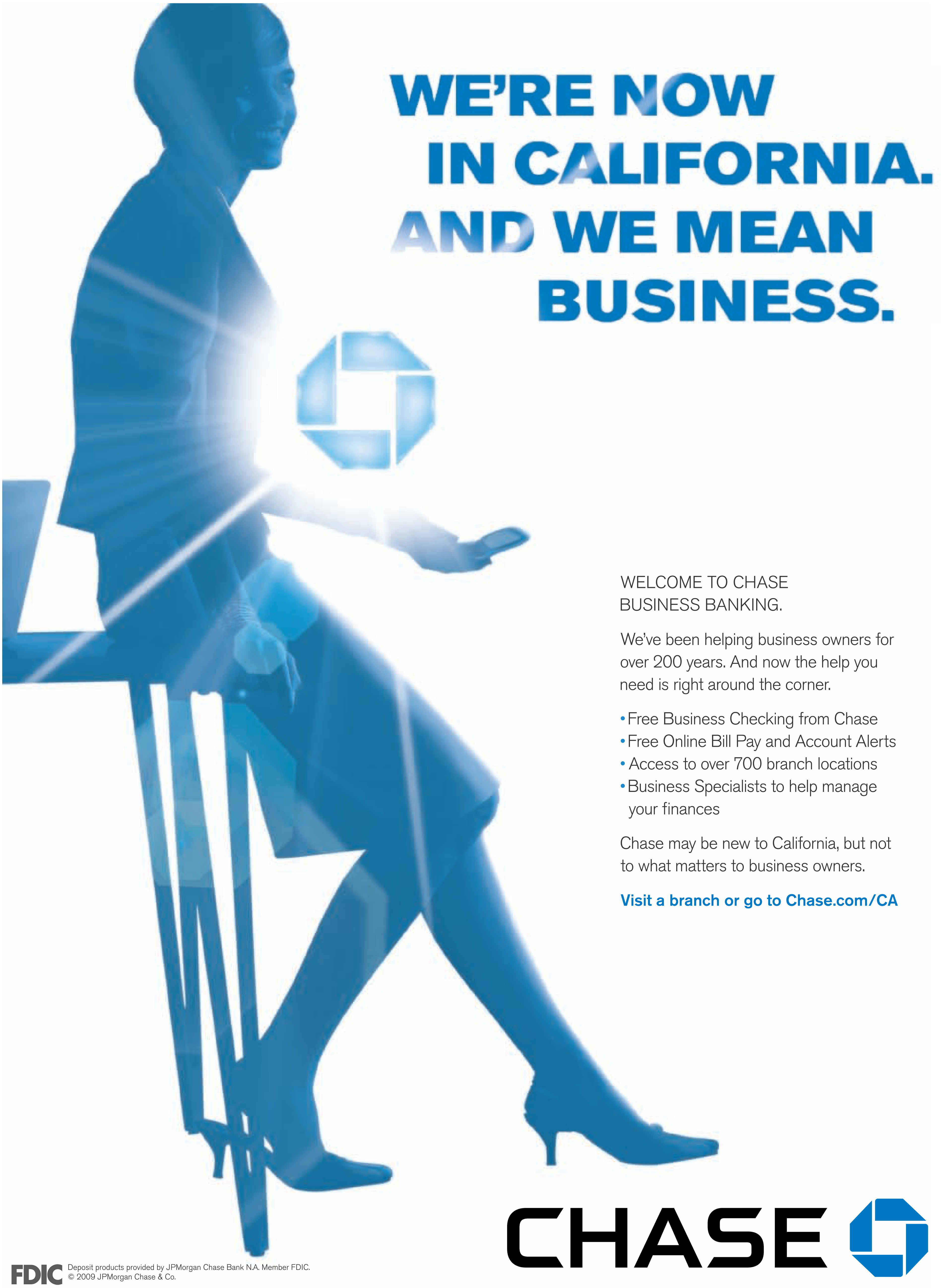
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U.S. Bank Provides Expert Solutions to Southern California Businesses

U.S. Bancorp is a diversified financial services holding company and the parent company of U.S. Bank, the sixth-largest commercial bank in the United States. Through U.S. Bank and other subsidiaries, U.S. Bancorp serves over 15 million customers, primarily through 2,847 full-service branch offices in 24 states.

With the recent acquisitions of Downey Savings & Loan and PFF Bank & Trust in California, U.S. Bank has grown its deposit market share in Orange County from #16 to an impressive #4. This acquisition also places U.S. Bank as the fourth largest branch network in Orange County, with 60 offices.

U.S. Bank Business Expertise

U.S. Bank's Commercial and Business Banking divisions have a long-standing history of providing industry expertise and guidance along with world class financial products. In Southern California, U.S. Bank has further strengthened these divisions by expanding its team of seasoned Commercial Banking Relationship Managers and Business Bankers. They stand ready to help their customers manage their businesses and their finances.

The U.S. Bank Commercial Division is the premiere provider of flexible, competitive financing solutions to California businesses. This highly respected group also offers depository, treasury management and other financial solutions to meet the needs of its clients. Experienced, accessible Relationship Managers serve as the customer's link to all products, credit, support and resources available.

U.S. Bank is America's #1 Small Business Administration (SBA) Lender* and is headquartered in San Diego. U.S. Bank's SBA loan specialists have delivered their industry-leading expertise for more than 32 years. Small businesses across the country utilize U.S. Bank SBA guaranteed loan solutions for owner/user real estate purchases, construction/expansion, refinancing, and business acquisition purposes.

U.S. Bank National Scope

A network of specialized U.S. Bank offices and representatives across the nation serves customers inside and outside the company's 24-state footprint through a comprehensive product set that meets the financial needs of customers beyond basic core banking.

Backed by expertise and advanced technology, these major lines of business are provided by U.S. Bank:

- ***Wholesale Banking*** – From deposit services and payments to financing, capital and leasing, investments and international trade financing, U.S. Bank brings the market knowledge, professionalism and capacity companies need in today's turbulent climate.
- ***Payment Services*** – U.S. Bancorp delivers an expansive range of flexible payment solutions and services for individuals and businesses worldwide.
- ***Wealth Management & Securities Services*** – U.S. Bancorp provides industry-leading services for individuals, institutions, businesses and municipalities to build, manage, preserve and protect wealth, as well as provide superior custody, delivery and obligation services.
- ***Consumer Banking*** – Convenience, choice, and accessibility – it's why more than 14 million consumers and small businesses choose U.S. Bank as their financial partner.

Committed to California

U.S. Bank connects with communities through affordable housing, economic opportunity, education, arts and culture, and community service. U.S. Bank is a vital part of the thriving Orange County community – U.S. Bank has committed to enriching this community through sponsorships including:

- Junior Achievement Day, Carver Elementary
- Families Forward/Adopt-A-Family
- South Coast Repertory
- Laguna Playhouse
- Pacific Symphony

Stellar Leadership

Bill Cave serves as the Market President for U.S. Bank's Orange County market. Bill and his team of bankers are committed to bringing the residents and businesses of Orange County the very best financial products and services, all delivered with superior service.

In this period of unprecedented uncertainty, U.S. Bank continues to operate profitably, increase lending, maintain its strong balance sheet, and adhere to its disciplined approach to risk management. Customers seeking a financial partner with strong capital and the ability to provide value-added products and services will find U.S. Bank ready.

Bill Cave

**Source: Small Business Administration (SBA). U.S. Bank is the leading SBA lender by either loan dollar volume or number of loans in the following SBA Districts: CO, IA, Kansas City, Kentucky, Los Angeles, MN, NE, NV, Oregon, Sacramento, San Francisco, San Diego, St. Louis and WA for the fiscal year ending 9/30/08. Subject to credit approval. Deposit products offered by U.S. Bank N.A. Member FDIC.*

For more information, please contact Bill Cave at William.Cave@usbank.com.

Santa Ana Business Bank – Bucking Trends, Making Loans

Thriving in challenging economy, locally owned bank is building relationships, extending credit

The headlines are everywhere. Tight credit squeezes small business. Big banks, suffering from toxic mortgage assets, curtail lending. Lender balance sheets drowning in toxic assets, resulting from prior loose credit standards.

But the headlines don't say it all. Santa Ana Business Bank is actively lending to creditworthy businesses. Because the year-old bank avoided involvement with weak mortgages, Santa Ana Business Bank remains in the lending business.

According to President and Chief Executive Officer Larry Frampton, "This is an opportunity to provide a fresh, traditional, proven business banking model that is strong and stable. Despite intuition to the contrary, it has been an extraordinary time to start a bank."

Frampton continued, "Because of our pristine balance sheet and focus on building relationships with our customers, we are doing exceptionally well. The fact that we aren't burdened by toxic assets, as are many large lenders, puts us in a strong position to lend to creditworthy customers and pay higher-than-average interest rates on deposits."

The Bank's conservative lending practices to creditworthy customers make it somewhat unique in today's credit crunch. Lending decisions are made locally, on a case by case basis, in contrast to larger lenders that assess a company's creditworthiness based on an ironclad, ivory tower-generated, cookie-cutter formula. Smaller companies suffering a temporary setback during this economic climate are ignored by banking giants. But Santa Ana Business Bank focuses on building relationships with dependable people. Each loan application is carefully reviewed for business potential, not just current challenges. In fact, while large banks are experiencing credit challenges, Santa Ana Business Bank notes good quality loan growth of 85% from September 30, 2008 to March 31, 2009, with excellent lending opportunities continuing to be available.

> "This is an opportunity to provide a fresh, traditional, proven business banking model that is strong and stable. Despite intuition to the contrary, it has been an extraordinary time to start a bank."
>
> –Larry Frampton

There are even more reasons to bank with a community bank: strength and safety. Santa Ana Business Bank is rated "well-capitalized" with capital five times the industry standards. Lending guidelines are exceptionally sound, and according to Frampton, the Bank has not experienced a single late payment by its excellent borrowers. "Conservative lending practices are the norm," he explained. "Management focuses on maintaining the strength of the balance sheet for the benefit of all our customers."

Equally impressive are the deposit interest rates offered. Certain account types, offered exclusively to Orange County businesses and residents, provide as much as 2.50% APY, notably higher than many Southern California banks at present.

Frampton believes that serving all of Orange County from the only bank headquartered in the County's largest city is an exciting opportunity. "All banks face a challenging economic environment," he noted. "But our bank is positioned to foster solid new client relationships. This allows us to focus on growth, not repairs."

For additional information, including products, services and client benefits, please visit www.santaanabb.com, or call 714.415.1700.

A Hiring Freeze Doesn't Eliminate All Your Staffing Options

by Brett Good

In the current economy, many companies are reducing the size of their full-time workforce, putting a freeze on new hiring, or both. Without adequate support and resources, however, a leaner workforce can quickly become a weaker workforce. While businesses must face the reality that costs must be cut, employers have more staffing options than they may realize.

Retention, recruitment remain top concerns for many employers

A workforce even temporarily weakened can have long-term effects on an organization. Not only are surviving workers expected to stay on top of their current responsibilities but also take on new duties or projects as needed, often without the promise of reward. The resulting stress and deteriorating work-life balance can put employers at risk for losing top talent – at a time when keeping customers satisfied and guarding against the loss of market share are of paramount importance.

When businesses must lay off staff or put the brakes on hiring at a time skilled personnel are sorely needed in key positions, workforce morale can take a direct hit. Professionals expect either they will lose their position or the organization will be acquired or, worse, shutter its doors. Even if their perception is erroneous, warnings in the media that the recession could worsen in the months ahead before showing signs of improvement could make some talented professionals figure it might be wiser to look elsewhere than wait around to lose their current job and become significantly overworked in the interim.

Many companies recognize this dynamic. A survey conducted as recently as December 2008 by Robert Half International revealed that worker retention remains a top concern for U.S. senior executives: 39 percent of respondents said retention was a key staffing issue for them. Nor are employers certain they will be able to *hire* new employees when they are needed, especially in fields where there is still a shortage of the most highly skilled talent: 22 percent of executives surveyed cited recruitment as their greatest staffing concern. Meanwhile, productivity and staff morale were each named by 17 percent of respondents.

Brett Good

An interim solution with long-term possibilities

What can employers do during this period of economic upheaval to avoid or mitigate these concerns while also keeping costs in check? Although there is no "silver bullet" solution, as all organizations and their personnel challenges are unique, companies can make more strategic use of cost-effective outside resources to supplement their full-time employee base with interim professionals and consultants. This approach allows them to address workload peaks and provide much-needed relief to existing workers.

Some businesses may believe the use of temporary professionals is not a cost-effective staffing strategy for these times, however, and when they must lay off workers or implement a hiring freeze, they also reduce or eliminate the budget they might normally allocate for hiring outside assistance. In fact, the reverse is true, and employers can better stay competitive in this economy by considering flexible and budget-friendly alternatives to full-time hiring, which may be out of their reach at this juncture.

By bringing in temporary professionals with exactly the right type of experience to handle specific projects or responsibilities, work quality is maintained and overtime costs are kept in check. In addition, full-time personnel, supported by interim staff who are able to step in seamlessly to meet critical deadlines, are likely to feel less pressure and have a more positive outlook, thereby helping to buoy overall workforce morale – and productivity.

Interim workers also give companies the flexibility to staff up or down as needed with ease. While on board, they protect the jobs of key employees whom you will need when conditions improve. In addition, when you are poised to start growing your full-time workforce again, you will already have access to a pipeline of skilled, potential employees who are familiar with the company, its culture and business objectives. This combination can help ensure that your organization will emerge from this recession strong, nimble and competitive.

How do you find the best people?

Experienced staffing firms can put employers in touch with skilled interim talent quickly, saving time and money. Look for a reputable, specialized firm with deep experience in helping clients both grow in good times and persevere through economic downturns.

The right staffing firm can provide you with highly skilled individuals who can offer immediate temporary assistance, supplement skills gaps in full-time staff, and satisfy cyclical or short-term needs. The best staffing firms understand that your personnel requirements can change overnight, and they have the flexibility and speed to assist you with those needs.

Core employees key to surviving tough times

The quality of your employee teams is vital to your ability to weather the current recession. By taking advantage of a fluid mix of core staff and interim professionals, you can maintain quality standards, hold on to your most valued customers and retain your best people.

Brett Good is the President of the Southern California and Arizona District of Robert Half, the world's first and largest specialized staffing firm. The company has more than 360 staffing locations worldwide, including nine offices in Southern California alone. For more information, please contact us at 949.476.8925 or visit us online at www.roberthalffinance.com.

Critical Contributors to the Crisis[1]

by JP Gough

Banking and economics are very complex today with a lot of moving parts that require technical expertise. The complexity is not hard to understand, but it does take some dedicated time to master.

Unfortunately, the talking-heads are misleading the public on the issues in this crisis. *We are living an epidemic of analysis by those least qualified to know anything about it.*

In past articles, I pointed out that many of the things people think are the drivers of the crisis are only its results. The *results* include: illiquidity in the banking system, subprime mortgages, lack of disclosure, lack of bank regulations, bad guys run amok, etc.

In a past article, I laid out the math showing that the subprime mortgage market was never big enough to cause this much economic dislocation.

In regard to the "disclosure" issue – today disclosures permeate our lives but no one reads them. When you last took out a mortgage, did you read the 1-inch stack of disclosures as you initialed in 17 different places acknowledging your understanding of the gobble-gook?

Do you read those bank disclosures that come as "stuffers" in your bank mail? Do you read the annual 100-pages of fine-print 10-K's you get from the companies in which you own stock? Of course not. The mountains of disclosures today actually obstruct understanding and transparency. *So more "disclosure" is not going to solve anything.*

In regard to more "regulation" – there are no institutions on earth that are as heavily regulated as are *banks in America*. **The average *community* bank goes through 19 or so audits and examinations *every year.*** To put that number into perspective, the average public company in America has 1 audit per year.

These different audits and exams at banks are conducted by 5 to 7 different regulatory agencies and audit firms – who compete with each other to find "stuff." The typical community bank has an examiner or auditor on its premises every 3 out of 4 working days.

The top 50 or so banks in America have examiners or auditors on premises every working day of the year because the number of their audits and examinations exceed 100. And there are times when 2 to 4 different examining agencies or audit firms will be on premises at the same time.

What the talking-heads do not realize is that all of this **regulation and compliance (exams and audits) costs the average borrower about 1-point of their annual interest payment**. So if you are paying 5% on your mortgage, 20% of your interest payment represents compliance costs (regulation). *So how much more do you want to pay for more regulation?*

So what is driving the crisis? In simple terms, the drivers of this crisis are structural. And these two structural influences came together to create the perfect storm.

Laissez Faire Philosophy on Banking

This philosophy started with the Depository Institutions and Deregulation Monetary Control Act, which was the "great leap forward" in the direction of *laissez faire* attitudes toward our nation's financial system. At first, Congress was reacting to a "liquidity crisis" caused by American mutual funds moving their dollars overseas (mostly to London) for higher rates.

But the response to that problem of dollars going to Europe ("Euro-dollars", not to be confused with "Euros") was overkill. In a hurry, Congress permitted anyone to get into the banking business without being regulated by bank regulators or having to meet the general standards of compliance, safety and soundness.

All of a sudden, taking deposits and making loans could be done by anyone, anywhere, without having to meet the compliance or regulatory standards of banks. So guess what happens? ***Whatever is the easiest thing to do, will be the thing that gets done***.

Overnight, many "non-banks" sprang up to do "banking." In many cases, the only economic justification for the existence of these new "non-banks" was the lack of regulation and oversight – that 1-point difference in bank regulatory and compliance expenses became the entire source of their profits.

In other words, if these "non-banks" had to meet the general public standards of compliance, safety and soundness in doing banking, most "non-banks" could not exist. And so, financial services were overrun by the idiots and the lazy attracted to large volumes of thin-margin loans about which they knew virtually nothing but which appeared easy.

While "non-banks" could do anything they wanted, regulation of "banks" actually increased. It has been estimated that the **costs of regulation and compliance in banking have risen by over 500% in the last 15-20 years**. With the non-bank cost advantage with no regulation and with the increasing cost of regulation for banks, it is a wonder that we still have a banking system.

The way to fix this problem is simple. We need to make sure that if someone wants to be in the deposit or loan business that they have to meet all consumer safety protections, mandated social programs, and safety and soundness requirements of banks.

It is time to remove the "shadow banking" system, which has proven not only that it does not have long-term economic viability, but also that it is a threat to the nation.

The recent repeal of the Glass-Steagall Act of 1933 showed that the idea of laissez faire economic philosophy in banking has gone too far. The Congress in 1933 passed that act after 5 years of crisis, investigation, thoughtful consideration and debate. Glass-Steagall was not a rushed and ill-informed bill. We should not assume that just because the Members of Congress were a preceding generation, that they lacked our knowledge of human nature or our thinking power.

We need to separate banking from other activities – especially the higher risk-taking of Wall Street and investment activities from commercial banking. We need to reinstate the Glass-Steagall separations – insulate banking from all other things, especially the casino-like proclivities of Wall Street. Those 1933 separations were very wise and deconstructing them with a free-for-all (but commercial banks) economic philosophy was a major contributor to this economic meltdown.

American Accounting Standards ("FASB")

"Accounting Standards" – *in any country* – are one of the five essential powers of government, along with the powers to: tax; make and enforce laws; provide for safety and the common defense; and the power to *create* money.

In many ways, accounting can create money just as easily as the Federal Reserve (as you'll see below). It forms the basis of how we determine whether any company is profitable and how much anyone owes to the government in taxes.

Accounting is much more than adding income and subtracting expenses – contrary to popular perceptions. Accounting also reflects a society's values and goals (i.e.: entrepreneurial capitalism vs. socialistic capitalism). And just as importantly, accounting philosophies and systems reflect each country's level of economic development and sophistication. That is why accounting differs from country to country.

When I worked in global finance, I had to be aware of the differences in accounting from country to country. The idea that there can be an "international" standard for every country is about as practical today as "world government." Governments today are not willing to give up national sovereignty – and accounting is one of the important aspects of national self-determination.

Accounting is only a convention – it is not governed by any absolute standards of nature or morality. Because accounting uses a lot of numbers, it has been likened to engineering. But that similarity is false, because *at least engineering is constrained by the laws of physics while accounting is only constrained by political will.*

A convention is where people agree to treat certain things in certain ways. A simple example is the depreciation schedule for a company car. Why pick 3-year instead of using a 7-year rate of depreciation? There is nothing moral or inherently correct about the amount of time given to depreciate a car on a company's books. In some countries, average lives of cars can be as long as 20-30 years. (Anyone been to Cuba lately?)

The United States is the only economic power which permits a private institute to determine its accounting standards ("Financial Accounting Standards Board" or "FASB"). That private and obscure institute in rural Connecticut chooses its voting members without broad public input and without any public accountability. And FASB makes our accounting rules without there being any reasonable public discussion (as exists in Congress or is found in rule-making agencies of the US Government).

While privatization of some government services makes economic sense, an essential power and duty of government should never be in private hands. We require that just about every important rule-making body of the government be run by presidential appointees, often confirmed by the US Senate. When my father was on the Nuclear Piping Commission of the United States (which wrote the nuclear piping code in the USA), he was vetted and answerable to the government. What gives accounting a waiver from the usual process of public discussion and scrutiny?

We have ended up in a situation where accounting rules are presided over by secretive "high priests" who have their own detached views of the world. **These high priests of accounting do not answer to anyone but themselves – even though their rulings have the force of law.**

Only when there is a full-blown crisis involving accounting, does FASB get grilled before a congressional committee as to what they're doing. But it takes a real crisis for even that drive-by appearance to happen since Congressmen feel out of their depth with applied accounting.

About 20 years ago, FASB started a major change in the accounting philosophies of the Untied States without ever telling anyone about their goals. Only after many more changes to the accounting rules (and there have been a lot!), has FASB's direction become obvious to all of us who have to live in the accounting world.

When I was working in a Big-3 accounting firm, one of my partners who was in the audit group, told me that the rule permitting "gains on servicing of sold loans" was the first big leap into the abyss away from reality. This allowed the recognition *today* of income from charging servicing fees *in the future*! And who says that accounting doesn't create money???

As Charlie Munger (Warren Buffett's lifetime business partner) said at the annual meeting at Berkshire Hathaway earlier this month, "[FASB] encourages otherwise conservative bankers to make dumb decisions." If you could *estimate* your *future* income, wouldn't you love to include that value in your financial

continued on page A-36

[1] This is another article in an on-going series pertaining to the current economic crisis. For a better understanding of some of the issues referenced here, please see previous articles by this author over the last two years. JP Gough is the founder, Chairman and CEO of Orange County Business Bank, which serves businesses that are managed by their owners – including individuals, partners and families. Mr. Gough has a wide breadth of experience in banking and finance – from the World Bank and Wall Street to global finance, crisis management and community banking.

JP Gough

BANKING & FINANCE

Citizens Business Bank Receives Highest Designation from SBA

Small business is big business! That's the philosophy of Citizens Business Bank, a $6.6 billion community bank headquartered in the Inland Empire. Small business accounts for more than half the private workforce in the country and more than half of all sales. Small business also has the highest potential for growth of any sector of our economy, creating roughly 60 percent of all new jobs.

Citizens Business Bank is geared to provide small businesses with loans designed for them to help fund growth. Commonly known as SBA loans, these loans are provided in conjunction with the Small Business Administration. SBA loans are available for real estate, equipment, working capital and other uses. Their benefits include lower down payments, competitive rates and terms, longer maturities, and pre-qualification for women and minorities.

Citizens Business Bank was recently awarded the designation of "PLP" or Preferred Lender Participant by the Santa Ana District Office of the Small Business Administration (SBA). This is the highest designation that can be achieved by a bank that participates in SBA lending, according to Chris Myers, President and CEO of Citizens.

"Citizens Business Bank received this designation because of our commitment to the SBA program, our proven success record, and because Citizens meets and exceeds the high standards met by the SBA," said Myers. Citizens Business Bank has more than 300 SBA loans valued at over $150 million.

CITIZENS BUSINESS BANK

As a Preferred Lender Participant, the Small Business Administration allows Citizens Business Bank to make credit decisions on SBA guaranteed loans. The SBA performs a minor review for eligibility. This greatly reduces the processing time for an SBA loan.

Citizens Business Bank offers two types of SBA loan programs. The 7(a) Loan is the primary business loan program of the SBA. It is commonly used to meet the varied short-term and long-term needs of established businesses and new start-up firms. The 7(a) loan can be used for most business purposes, including real estate purchases, construction, machinery and equipment purchases, working capital, inventory and business acquisition.

The 504 Loan provides long-term, fixed-asset financing through Citizens Business Bank and a local Certified Development Company. A 504 loan may be used for real estate purchase, construction and machinery and equipment purchases.

"Citizens Business Bank received this designation because of our commitment to the SBA program, our proven success record, and because Citizens meets and exceeds the high standards met by the SBA,"

–Chris Myers, President & CEO, Citizens Business Bank

Recently, Citizens Business Bank worked with Bill Alpert of Alpert's Printing in Rancho Cucamonga, using an SBA loan to help expand his business.

"We've been in business since 1966," explained Bill Alpert. "Like many other people, I thought an SBA loan was for someone new on the block, or for a selected individual. In reality, SBA programs will work for many, many businesses—established businesses."

"I found that not only could I purchase equipment," continued Alpert, "but I could do real estate and equipment loans all in one transaction and that really made it nice. We could do everything all at once. The interest rates were very low, and it gave me a comfortable payment."

Citizens Business Bank is the largest bank headquartered in the Inland Empire area of California. It is widely recognized for its commitment to its customers and communities, as well as its strong financial performance. Citizens Business Bank serves businesses, professionals and individuals through 44 conveniently located offices in San Bernardino, Riverside, Orange and Los Angeles Counties and the Central Valley areas of California.

For more information about an SBA loan, contact the SBA Loan Department at Citizens Business Bank, 701 North Haven Avenue, Ontario, CA 91764, or call Mark Richardson at 626/564-6234.

STRONG. SOLID. SECURE.

While the recent economic downfall and implosion of the financial markets caught most of the world by surprise – at CommerceWest, it was business as usual. **Reporting our 25th consecutive quarter of profitability**, CommerceWest continues as one of the strongest banks in California.

Ivo Tjan, Chairman & CEO

I invite you to contact me directly at (949) 251-6959 or itjan@cwbk.com to learn more about CommerceWest and how you can start banking on the difference.

And we're not the only ones who think so. Third-party bank reviews serve as further validation that CommerceWest is resolute and well-positioned to persevere throughout these troubled times.

In this uncertain climate when other companies are downsizing, our expansion efforts remain on track both in terms of personnel and geographic locations. In fact, we have recently entered into a definitive agreement to purchase Discovery Bancorp of San Marcos, Calif., and its principal subsidiary, Discovery Bank. We expect the transaction to be completed by the third quarter of this year and look forward to extending our footprint into San Diego County.

Due to our continued success and financial stability, CommerceWest made the determination to not apply for funds available through the federal Troubled Asset Relief Program (TARP). As such, we will continue to concentrate on what we do best – providing specialized, personally-tailored financial services in an untraditional manner.

RECENT RATINGS INCLUDE:

- "A" or "Excellent" TheStreet.com
- "5-Star" or "Superior" Bankrate.com
- "5-Star" or "Superior" BauerFinancial
- "Premier" The Findley Reports

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BANKING & FINANCE

No Need to Hide Your Money Under Your Mattress

The recent "bailouts" of many insurance companies, brokerages and banks has heightened public concern over the stability of financial institutions. In fact, throughout the history of banking, no one has ever lost a penny of an FDIC-insured deposit. Banks are required to have significant capital and reserves – that is, rainy-day funds for tough economic times. These reserves are a bank's first line of defense to cover any losses.

Assessing the implications of "stress tests"

If capital and reserves are a bank's, and therefore a customer's, first line of defense, recent stress tests, performed simultaneously on the largest banks in the nation, have raised red flags for consumers. Stress tests are nothing new. Banks and regulators have historically performed them. What is new is the public discussion of the results. Banks are not categorically opposed to public disclosure. Many banks do feel, however, that disclosing the information may, instead of boosting public confidence, have a negative impact on the reputation risk rating of the financial community as a whole. On May 7, results of the stress tests were released by the government. Six out of the 19 institutions examined were directed to raise more capital.

It is important to know that stress tests are not viability tests. Even where a stress test determined that an institution needed additional capital, it does not necessarily make a statement about the solvency of that bank in the current environment. Stress tests are based on a very conservative set of assumptions and gauge how much capital the bank *may* need to meet its obligations *over the next several years,* should the worst-case scenario befall them. Industry-wide, banks proactively manage their capital positions, responding quickly as problems evolve, and most hold capital in excess of what is needed to be considered "well-capitalized."

Risk management in the financial sector has also improved dramatically. Over the years, banks have increasingly put enterprise-wide risk management processes in place, increased the use of sophisticated risk-management procedures, and implemented strong systems of checks and balances.

Expanded protection for FDIC-insured accounts

With nearly 8,500 banks serving customers from 97,000 locations nationwide, the chances of your bank being taken over by the FDIC are remote. Even if that did occur, the October 3, 2008, Emergency Economy Stabilization Act which raised the basic limit on FDIC-insured accounts from $100,000 per depositor to $250,000 through the end of 2009, and the temporary Transaction Account Guarantee Program which provides full coverage for all non-interest bearing deposit accounts at participating institutions, would protect depositors and ensure uninterrupted access to your money.


Tom L. Dobyns, President & CEO

Pending Federal legislation, Senate Bill 896, which has passed the Senate and is on its way to the House includes language that would extend the temporary FDIC deposit insurance coverage increase of $250,000 through 2013, providing long-term protection for depositors of FDIC insured institutions. The combined diligence of financial institutions in managing their individual capital positions and implementing risk management processes throughout their business practices, and the continuing oversight and response of the FDIC to the changing economic climate should give consumers a sense of confidence in the overall safety and soundness of the financial services industry. Always feel free to contact your financial institution for specific information about their practices and ratings.

American Security Bank is located at 1401 Dove St., Newport Beach. For more information, please phone 949.440.5200.

CRITICAL CONTRIBUTORS TO THE CRISIS

continued from page A-33

statements *today*???

But it does NOT make sense. There are too many variables and a lack of any surety about that future income. *And people are surprised when this gets abused?* Where is there any "real life" consideration in making up these rules? Other dumb accounting includes:

1. At BNY-Mellon Bank, they were required under accounting rules to take a "paper loss" of $1.2 billion on their mortgage securities when the true economic loss was estimated by the bank to be only $200 million.
2. Regions Bank was forced under accounting rules to wipe out one-third of their capital. The reason? An acquisition they did 5 years ago at market prices would not realize those prices today. So the accountants took the 5-year old balance sheet and valued it at today's prices. They call this "mark to fair value."
3. Banks are required to "defer" certain expenses into the future on each loan they make, even though the expense is paid in cash today. This lowers compensation expenses even though the cash has already been paid out.

Does any of this seem rational to you? FASB had a goal to make financial statements the total summation of all economic values. But accountants ended up changing from the professionals who monitor and verify cash flows, to guessers who estimate values.

That is making financial statements increasingly more difficult for trained analysts to understand with the myriad of deferrals on income and expenses as well as "accountant's valuations" of assets and liabilities.

And everyone wonders why banks don't trust financial statements today in order to lend against them? Today's lack of dependability on financial statements is causing this economic havoc because there is a false precision in their estimates of value.

Who made the accountants the "gods of valuation"? What FASB failed to realize is that "value" is subjective, while cash is "objective." **The accounting profession has moved from dependable certifiers of economic performance into pawn shop appraisers**.

American accounting today has enormous limitations and uncertainties. This was caused by the drift from "verification" to "valuation" initiated by FASB without any consideration of unintended consequences or practicality in the real world.

This problem is being widely discussed by people who have to work in the accounting world. Both Warren Buffett and Charlie Munger attacked the stupid accounting at their annual meeting. Jamie Dimon of JP Morgan Chase also gives examples of dumb accounting in his annual report. And the list is growing.

Conclusion

It is time for Congress to (1) bring back Glass-Steagall and (2) create a legitimate authority to establish American accounting standards – the Accounting Standards Commission of the United States ("ASCUS"). These two actions will do much to repair the extensive economic damage that has been caused by economic experiments in banking and by the myopic accounting theoreticians of FASB.

This Accounting Standards Commission should contain voting members from a broad group of accounting experts who know and use accounting, not just CPA's, but also professionals from banking and finance, as well as CEOs and CFO's from public companies.

These voting members need to be appointed by the President and confirmed by the US Senate because **accounting rules have the force of law**. And only properly empowered and accountable public servants will think through the consequences in the real world. Time to get rid of the secretive high priests of FASB who have demonstrated a vast disconnect with real life.

As the doyen of US business, Charlie Munger (86) said, "If accountants don't feel shame over this crisis, then they're not thinking right."

At CommerceWest Bank, It's Business as Usual.

This past year was a humbling experience for many. In what seemed like the blink of an eye, some of the industry's most recognized institutions found themselves falling hard and fast. In spite of this economic and industry carnage, CommerceWest Bank continues to enjoy solid financial performance as one of the strongest banks in California.

Since our inception, our focus remains unchanged – to provide a complete banking experience for each client by catering to their specific needs in a high-quality, low-stress environment. While we have weathered some turbulent market conditions, we have avoided the pitfalls that are now plaguing other financial institutions by adhering to this original strategy.

COMMERCEWEST BANK
Bank on The Difference

CommerceWest Bank recently reported its 25th consecutive quarter of profitability. Because of this continued success and financial stability, we made the determination to not apply for funds available through the federal Troubled Asset Relief Program (TARP). In fact, while other companies are downsizing during this uncertain climate, we are expanding and have recently entered into a definitive agreement to purchase Discovery Bancorp of San Marcos, Calif., and its principal subsidiary, Discovery Bank. We expect the transaction to be completed by the third quarter and look forward to growing our business in San Diego County.

Top-notch ratings including an "A" by TheStreet.com, "Premier" by The Findley Reports, and "5-Star" by BauerFiancial and Bankrate.com serve as further validation that CommerceWest is well-positioned to persevere throughout these troubled times.

While the economic challenges continue for the industry as a whole and more banks are forced to close, it will be apparent by those left standing which are strong and resolute. CommerceWest will be one of those establishments.

As CEO, I invite you to contact me directly to learn more about CommerceWest and how you can start banking on the difference.

Contact Ivo Tjan, Chairman and CEO of CommerceWest Bank at (949) 251-6959 or itjan@cwbk.com. For more information about CommerceWest Bank, visit www.cwbk.com or call (866) 521-2925.

Pacific Mercantile Bank Re-Enters the Morgage Loan Arena

by Barbara I. Palermo, Executive Vice President, Pacific Mercantile Bank

Anticipating a relatively flat commercial loan market in year 2009, we again looked to our strategic plan, which has been in effect since 1999. Even with exploring new commercial loan business niches, we realized the need to look elsewhere to bring profitability to the Bank. All indicators point to the fact that in the coming months, there will be an increase in home purchases and a corresponding increase in the demand for residential mortgage loan products, as prices for homes begin to stabilize and the economic recovery begins. Additionally, we believe that the credit quality of prospective borrowers will be much improved, because credit underwriting standards are being tightened and sub-prime and other high-risk mortgage loan products have been discontinued. As a result, we are planning to re-enter the wholesale and retail mortgage loan origination business, which we believe provides us with an opportunity to increase our revenues and profitability. We began this opportunity in a conservative manner by, among other things, building on the experience we gained from our previous wholesale and retail mortgage loan operations, and by applying stringent underwriting standards when making credit decisions, which enabled us to increase revenues and improve our profitability throughout the years of, and following, the dot.com bust in 2000 and again after 9-11, when the commercial lending market slowed for several years. We planned to initially offer mortgage loan products consisting of government and agency-quality one-to-four family first mortgage loans, which, in most instances we would fund at the time of origination and then sell off to investors in the secondary market. In conjunction with that business, we have followed up with a retail residential mortgage loan division in the second quarter of 2009.

PACIFIC MERCANTILE BANK
"HIGH TECH - HIGH PERSONAL TOUCH"

Please remember that we had the foresight to completely close down our wholesale mortgage division in 2005, thereby avoiding the financial problems plaguing the industry and economy today and allowing us to escape virtually unscathed. However, now is the time to reenter the market. We have been fortunate to hire a highly professional and experienced bank trained mortgage and compliance team, which averages 20 years of FHA experience per person. FHA loans require specialized expertise, and we have four FHA approved underwriters on our team. Because of a shortage of these people in the industry, we believe this gives us a competitive edge.

Additionally, we were proud to announce, in our April 16, 2009 press release, that the Bank had obtained approval from the Federal Housing Administration ("FHA") to originate FHA insured single family mortgages as a Title II FHA Lender.

"If one is looking at the California home purchase market today, the FHA is fueling the majority of financing," said Raymond E. Dellerba, President and CEO. "Furthermore, looking at the breakdown between conventional and FHA financing, I believe the FHA is playing a bigger part today than at any time during the last 15 to 20 years. Our mortgage division is up and running; we are open for business!" concluded Dellerba.

For more information, please visit www.pmbank.com.

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