
Market Outlook 2011



For this annual feature, Financier Worldwide has again gathered the opinions of the corporate advisory and dealmaking community to explore their insights into current and emerging trends as we enter the new year.

BANKING & FINANCE

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► **BANKING AND THE RISK OUTLOOK IN THE UNITED STATES**

This article considers how the banking sector may impact small business owners in the United States, which, depending upon how this market is defined, supports 65-80 percent of the labour force, and how fraud can be an untimely companion.

At the time of writing, the US markets are still unsettled over what the status of the longstanding 'Bush tax cut policies' will be going into 2011. This indecision on the part of the once Democrat controlled Congress going into the mid-term elections in November 2010, and their continued reluctance to aggressively confront this issue and provide business owners with favourable, pro-business tax policies going into 2011, creates much indecision about hiring, business investment and business selling strategies. As we enter 2011, the final status of this issue will be the most telling factor of whether businesses will enter the New Year with re-

newed investment vigour. By the time this is in print, we will likely know the answer to the issue, which will likely be a political compromise between tax policy and continued unemployment compensation for those still unemployed.

The world business and credit markets, as with the US credit market, are facing challenges that are unfamiliar to business owners in modern times. At the top of this list is the 'country risk' associated with those businesses domiciled and doing business in countries beginning a year with historically record debt. While market interest rates remain at record low levels, the pressure on interest rates that comes with excessive country debt burdens and the resulting inflation seem to foretell a possible change in interest rates if history repeats itself. While many large public companies are cash heavy, many small businesses are not, and even a nominal increase in interest rates will exert tremendous pressure on their already stressed cash positions and financial statements. Small businesses in the US are already feeling the continued stress that has come from an earlier government bailout of many banking institutions and the resulting more conservative underwriting requirements of their small business loans.

Many businesses that once operated with interest - only revolving lines of credit are now being forced to convert these credit facilities to short amortisation term loans or pay them off completely, which in many cases can't be supported by adequate cash flow from business operations. As already stated, future US tax policy could seriously impact this business continuation equation as well.

The outlook from the lender's perspective is a tougher credit and underwriting stance as the only way to protect its credit quality and satisfy the toughened banking regulators, which means an even harder look at a borrower's business plans and objectives, their source(s) of repayment, their collateral and the backgrounds of the business owners, principals and management team involved. In tougher economies and business markets, fraud is sometimes a business owner's companion because desperate people sometimes do desperate things. Fraud prevention via thorough due diligence is a must and is the best fraud antidote. This more thorough due diligence must be consistent, continuous and uncompromising. In the future, thorough due diligence as an anti-fraud initiative will be performed before and during the investment and lending relationship. ■



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Jerry Oldham is co-founder, Chairman and CEO of 1stWEST Financial Corporation. Mr. Oldham has an extensive background investigations and corporate due diligence background and a broad senior management resume in commercial banking and corporate and real estate finance. He frequently serves as a consultant or expert witness in litigation and settlement negotiations involving complex corporate finance, real estate, banking and lending practice issues, having assisted in the settlement of hundreds of lawsuits over the years. Additionally, Mr. Oldham often acts as a consulting team leader to manage the overall due-diligence process on investment decisions for 1stWEST clients. Mr. Oldham received his B.S. Degree in Finance and Real Estate from The Pennsylvania State University and his M.S. Degree in Banking and Finance from Colorado State University. While at Penn State he was President of the College of Business Student Counsel and was awarded the Dean's Cup upon graduation. He is recognized for his banking research and publications in the areas of commercial loan pricing and profitability analysis and due diligence. Mr. Oldham is a graduate of the American Bankers Association's Undergraduate and Graduate level studies programs and holds the ABA's Certified Commercial Lender designation. Jerry serves on the Executive Committee of the Commercial Finance Association and on the Board of Governors of its Education Foundation, of which he is past Campaign Chairperson. Jerry is also a member of the Association for Corporate Growth, and 1stWEST is a member of the National Association of Small Business Investment Companies.