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# Commercial Lending: Theory vs. Actual Practice

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NORTHERN ILLINOIS UNIVERSITY

# Commercial Lending: Theory vs. Actual Practice

A Report submitted to the

University Honors Program

in Partial Fulfillment of the

Requirements of the Baccalaureate Degree

With University Honors

Department of Finance
Assistant Professor Dr. Joseph A. Newman

by

James A. Ruzicka, Jr.

DeKalb, Illinois

May 1990

# HONORS THESIS ABSTRACTS

## THESIS SUBMISSION FORM

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ABSTRACT:

The purpose was to come to a better understanding of the commercial lending process by comparing, among three different size commercial banks in the greater Chicago and Rockford areas of Illinois, the **actual** process of commercial lending to the "**theory**" that undergraduates are taught. The project's narrow scope, when needed, was the above comparison as it relates to commercial middle market term loans.

The "theory" consists of the Six "C's" of Credit and financial ratio analysis. The three different size categories of commercial banks were categorized on assets as those: up to $300 million, from $300 million to $1 billion, and $1 billion and up. One commercial lending officer at each of the 15 banks was interviewed. Each was asked to rank and to explain their ranking of both the Six "C's" of Credit, and a list of ten ratios found to be the most important among commercial lenders in 1983.

Findings on the six "C's" revealed that commercial lenders do not use them per se, but that lenders were able to identify: character, capacity and collateral as the top three areas.

Findings on the 1983 list of financial ratios revealed that commercial lenders now rank cash flow ratios first instead of third. The other primary ratio identified was debt/equity.

In general, commercial lenders at smaller banks believed they understood their customers better than lenders at larger banks. However, lenders at larger banks maintained that this was only a perception due to various reasons. Lenders at smaller banks do not rely on financial ratio analysis as much as lenders at larger banks.

Approved:

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May 3, 1990

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## THE SIX "C's" OF CREDIT

All those interviewed stated in one way or another that they did not separate the lending decision into the Six "C's" of Credit. In fact, many had trouble stating just three of the six. Some even confessed that they had to ask around the office what the "C's" were when they received my pre-interview letter.

One possible explanation for this unfamiliarity was given by Carl Heinisch at First of America when he stated that there were only three "C's" when he went to school. The other possible explanation can be found in the project's finding that the lenders do not consciously break down the lending decision into the various "C's." Under this explanation, the "C's" instead become a useful tool for teaching the various factors affecting the lending decision.

All lenders expressed in one way or another that the "C's" play off of one another. Bob Jank of Northern Trust: "Each one is important to some extent...there is really no one ["C"] that is number one." Hugh McLean of Harris Trust supported this idea too by saying that the lending officers are sales people who are trying to get square pegs into round holes.

When the bankers were asked to rank the significance of each "C" based on their own experience, even though they don't use them per se, the general consensus was that: Character, Capacity, and Collateral in that order were the three key areas among the Six "C's." Only two of fifteen lenders did not rank the "C's" in any order because they felt the importance among the "C's" varied from situation to situation--see Appendix A.

## CHARACTER

Jeff Baker at Continental Bank put it best when he said that if he can't get comfortable with the borrower's character, he's not going to be able to entrust the bank's money.

### Reasons For Importance

Reasons why lenders viewed character as very significant were: companies are usually run only to minimize tax effects, borrowers tend to be entrepreneurs that aren't always financially orientated, and that the commitment levels vary between borrowers.

Jeff Brown of Oak Brook Bank: "Your looking at [entrepreneurial and startup] businesses managed with an eye towards the tax consequences, not next quarter's profits."

Bob Jank's view was that most customers were entrepreneurs and private companies. Here the president most often is a "sales type person" who usually brings in just sales data and not the company's general financial data.

Peg Wilkerson of First National Bank of Rockford: "If somebody is committed to paying you back, they will no matter what happens to the business. And if they are committed to getting out of it, they will." She also is careful when dealing with a second generation family business. "They don't have that innate entrepreneurial attitude that their father's had."

### Character Traits Looked For

The general borrower character traits looked for were: honesty, straight forwardness, grasp of the business, and the ability to make objective predictions of their business.

Bob Nowak at AMCORE looks to see if the owner has had a lot of previous experience in the field, and whether or not the person could persevere during rough times. He doesn't want people who will toss in the towel.

Chuck Davis of Harris Trust: "I can't emphasize the importance of one's assessment of management. [With] middle size companies, your often dealing with the CEO." He looks for people who are honest, straight forward, and who have a grasp of the business. "I'm impressed by people that have a toughness about them. A shrewd businessman will be tough with a bank just like he is tough with others. We take comfort in knowing that he is tough with other people too, and [that] he is probably doing a good job of running his business."

Bob Jank: "I get a little leery when you get someone who says, 'Okay, that sounds good.' when you give them a loan document that has all this loan information on it."

Tom Ryan of LaSalle National Bank said that one way to measure character was by looking to see not only if the company's management was realistic and objective in its planning, but also if they met their financial plans and goals. This could be done by comparing plans to financial statements, and by looking at the company's history of managing its account receivables and inventories.

CAPACITY

Peg Wilkerson ranked capacity as the most important objective measure (she ranked character as the most important subjective measure). Capacity was a key area because it

indicates how much "cushion" there is before principle and interest reduction are at risk. This is currently done by looking at net cash flow figures and cash flow ratios. (Ratios will be discussed later.)

The degree of capacity was also important when examining the purpose of the loan. Bob Jank offered the following view that if the loan's purpose was to recapitalize the company, then he was comfortable with a non-changing cash flow level, but his requirements were that there was a strong historical record of non-changing cash flows. If the purpose of the loan was to expand the company (buying or leasing equipment), he then wanted to see an increase in the cash flow level, and the historical perspective of cash flows was not as important as in the first case.

Capacity (cash flow) wasn't of <u>primary</u> importance among asset-based commercial lenders like Lake Shore National Bank.

## <u>COLLATERAL</u>

Collateral was viewed as the third most significant of the three key areas; however, two commercial lenders in the up to $300,000,000 category ranked it lower--behind capital.

Collateral's importance was naturally strong among asset base lenders like Jeffrey Baker who makes very few unsecured loans. When John Prosia views collateral, the two things he examines are the collateral's adequacy and condition. Mark Spehr also held the same view stating that if the collateral's asset value is equal to the market value, then the amount of capital didn't matter that much to him.

There was, however, some objection to the level of collateral's importance. Bob Nowak offered the strongest reasons: "Collateral is archaic. [It] is a poor second alternative for repayment [because] it is seldom worth what you think it is--if you can find it--and the market conditions will be horrible when you get it."

## CAPITAL

If a forth "C" is to be ranked, it would be capital because of the two institutions that felt it was one of the top three areas. Both lenders felt that it would be very difficult to make a loan if there wasn't much capital. Bob Nowak wanted to see at least 10-20% personal equity in each of his start up loans. Chuck Davis especially looked at the amount of net working capital.

## CONDITIONS & CONTROL

There was really no difference in the level of importance between conditions and control. Conditions was an important area because even though almost anyone can make money when times are good, only a few people can make money when times are bad. Control was important because more control over items like account receivables and inventories turns some risks into "calculated risks." Mark Spehr viewed control as having a secondary importance because of the role lockboxes can play--the bank then has control of the account receivables.

Many different definitions for control seemed to surface. These basically fell into one of two categories: the bank's control of pledged assets or collateral (e.g. lockboxes), and government regulation (e.g. EPA regulations affecting real estate).

Jeffrey Baker offered a control definition related to the extension of credit; here the control consists of the checks and balances within the loan agreement. "Do you trust your borrower to make his payments when he is supposed to, and that he will operate with the guidelines that you set forth? Or is the situation so tight that you have to have all sorts of checks and balances."

## FINANCIAL RATIOS

Financial ratio analysis was the other area of comparison between the commercial lending theory taught on the university level and the actual practice of commercial lending. A 1983 nationwide survey showed the following list of financial ratios as the top ten most significant among commercial lenders. That same list was presented to the lenders interviewed for this project. The two lists, ranked in their order of significance, are presented below. A more detailed presentation of the findings can be found in Appendix B.

**1983 SURVEY**

Debt/Equity
Current Ratio
Cash Flow/Lg Tm Debt Maturities
Fixed Charge Coverage
Net Profit Margin After Tax
Times Interest Earned
Net Profit Margin Before Tax
Degree of Financial Leverage
Inventory T.O. in days
Account Recvble T.O. in days

**1990 SURVEY**

Primary

Cash Flow/Lg Tm Debt Maturities
Debt/Equity & Degree Fina Levrg

Secondary

Accounts Receivable T.O. in days
Inventory T.O. in days
Current Ratio
Net Profit Margin Before Tax
Times Interest Earned
Net Profit Margin After Tax
Fixed Charge Coverage

Cash flow and the amount of debt leverage were the two primary areas looked at using ratios or figures. Ratios of secondary importance were the: accounts receivable turnover in days, inventory turnover in days, current ratio, and the net profit margins. Times interest earned was not rated very high due in part to the fact that it is composed of income rather than cash. Here lenders use cash flow ratios and figures, instead of income, to determine how well the interest part of the loan will be serviced.

Like the Six "C's" of Credit, the general impression made by the commercial lenders was that the importance of each ratio varies. Warren Tisch: "There are so many different ratios, you have to take them all into consideration. One could be weak, but the other is strong." Bob Nowak also feels that all the ratios were significant in one form or the other.

Other lenders felt that different ratios played a different role in various situations. Richard Haley: "The ratios make a difference based on how you are structuring your credit." He and Jeffrey Baker gave the examples that on term loans, interest ratios will play a greater role; and that on revolving loans, turnover ratios will be more important.

Russell Boyer probably best summed it up by saying: "When a guy's on the boarder line, then it becomes important."

## SURVEY RATIOS

### Cash Flow Ratios

As the data illustrates, cash flow ratios (or figures) ranked consistently as those which were most often used. This correlates with the fact that Capacity was viewed as one of the top three "C's" of Credit. Cash is what pays back the loan, and with no cash, the loan can't be serviced.

The forms that the cash flow ratios took were different than the CASH FLOW/CURRENT MATURITIES OF LONG TERM DEBT that was used in the original 1983 survey.

Both Tom Ryan and Jeffrey Brown look at the CASH FLOW FROM OPERATIONS or the SOURCE OF CASH FLOWS; their reasoning is that it is important to not only look at the amount of cash flows and how well the cash flows will cover the payments, but to also examine the stability of the cash flows. Tom Ryan also looks at the CASH THROW-OFF (net income + depreciation).

Bob Jank looks at CASH FLOW AFTER OPERATING EXPENSES. Like others he is looking for changes in that figure and why those changes occurred. Operating expenses are something that management can control to a certain degree if they are budgeting correctly. He believes that many times a change here is due to a change in the amount invested in account receivables and inventories. Consequently, CASH FLOW AFTER OPERATING EXPENSES can be used as a tool to measure both the cash flow capacity and the management's character-capacity.

Other cash flow perspectives included: 1) Jeffrey Baker looks at the FIXED CHARGE COVERAGE ratio from a cash flow perspective because it "tells how much cushion you have," and 2) Peg Wilkerson feels that because not all loans and company's are alike, CASH FLOWS/ANYTHING ratios are a good way to go.

Although cash flow was undoubtedly the most looked at, there was one lender that didn't use it that much because his bank was primarily an asset based lender that viewed collateral as being more important. John Prosia: "We don't concentrate on cash flow primarily. We aren't uncomfortable with highly leveraged situations... because that is what we do... that's our bread and butter." He looks at the collateral's value and the company principles first, and <u>then</u> he looks at cash.

The probable reason for cash flow's increase in importance is that since 1983, both its understanding and data availability have increased dramatically. In 1986, the Statement of Cash Flows became a required statement in annual reports. Also, many people in the lending industry have personally seen the effects little or no cash flow can have on a business through their past experience in the late 1970's and early 1980's.

Debt/Equity & Degree of Financial Leverage

Because these both measure the same thing, lenders viewed them as being interchangeable; however, DEBT/EQUITY was by far the more popular of the two. The reason why the present amount of leverage is so important to lenders is that with more debt, the less likely any new debt will be paid in full if bankruptcy should occur.

Tom Ryan used the DEBT/EQUITY ratio to get a better feel for the borrower's tangible net worth.

Accounts Receivable Turnover in Days

Generally, ACCOUNTS RECEIVABLE TURNOVER IN DAYS is viewed as a primary ratio only when loans are secured with accounts receivable. In all other situations, it is a secondary ratio used for examining the borrower's overall situation. Lenders seem to be comfortable with a 45 day turnover, although 30 days was ideal.

## Inventory Turnover in Days

INVENTORY TURNOVER IN DAYS is a secondary ratio that can shed light on management's forecasting and operating abilities. The benchmarks vary from industry to industry.

## Current Ratio

The CURRENT RATIO is popular among the very small banks whose middle market consists of family owned stores and small businesses. All other banks did not rate this ratio very high.

The general perception received from all institutions greater than $300 million was that the CURRENT RATIO is examined more out of habit and tradition, than out of its usefulness. Bob Jank: "Everyone looks at it, but it doesn't tell you much." Richard Haley from an under $300 million bank concurs, but he feels that the relationship between current assets and liabilities should still be examined; consequently, he uses the "more appropriate" QUICK RATIO because it excludes account receivables and inventories.

The only other time the current ratio appears to be significant is in asset based lending where it is used in conjunction with the accounts receivable and inventory turnovers in days. Here, all three together paint a clearer picture of the collateral base.

## Net Profit Margin Before Tax

This ratio is examined just to see if the business is making money, but the amount of the margin is not important. As mentioned earlier, most middle market businesses are privately owned and are operated in order to minimize taxes; hence, the

amount of the profit margin is not as important. Bob Jank feels that profit margins that far down the income statement are "too late" to be of any usefulness. Additionally, Jeffrey Brown believes that: "Profits are nice, but you don't get paid out of profits, you get paid out of cash flow." However, Warren Tisch feels that <u>any</u> profit ratio was fine.

NET PROFIT MARGIN BEFORE TAXES ranked higher than NET PROFIT MARGIN AFTER TAXES because "everyone pays taxes."

<u>Times Interest Earned</u>

TIMES INTEREST EARNED has fallen primarily due to the increased importance and attention to cash flows. If the ratio were to be of any more usefulness, it would have to be also be calculated to find the number of times interest fits into the cash flow.

<u>Net Profit Margin After Tax</u>

The NET PROFIT MARGIN AFTER TAXES is looked at for the same reasons given in the NET PROFIT MARGIN BEFORE TAXES; however its uses are almost non-existent. Its minimal use is to make sure the business is out of the red.

<u>Fixed Charge Coverage</u>

The FIXED CHARGE COVERAGE ratio was ranked important by only two of the fifteen lenders interviewed. One lender ranked it as a key ratio, the other lender <u>only</u> uses it when it is calculated using cash flow instead of income. As mentioned earlier, this way, it tells the lender how much "cushion" there is.

## OTHER RATIOS & FIGURES

Below is a list of ratios and figures that commercial lenders came up with when asked to add any additional ratios or figures they use that were not in the 1983 survey.

- various cash flow ratios & figures (were previously discussed)
- net working capital (was previously discussed)
- projected growth (pro forma statements)
- intangible assets
- gross margin/sales
- operating expenses/sales

## Projected Growth (pro forma statements)

Projected growth is accomplished using computer simulations. The main reason here was to try to answer the question: "Will future growth and cash flows support the increase in debt?"

## Intangible Assets

These assets are looked at to see how much of the balance sheet they make up. Intangible assets have no market value to a lender, only to the borrower and a limited pool of like businesses. In cases of bankruptcy, lenders with contractual agreements are satisfied first, and if the borrower's assets are made up primarily of intangible assets, then the lender could get stuck with these intangible assets.

## Gross Margin/Sales

Bob Jank offered this ratio that "tells you the things that are not in [the borrower's] control." Here the lender wants to see how steady the ratio has been. Things that would affect the

ratio's stability would be changes in purchase costs, and selling prices due to market conditions.

Operating Expenses/Sales

Bob Jank also offered this ratio. This ratio gives insight into those items that management can control and reflects on their ability to budget correctly. Both OPERATING EXPENSES/SALES and GROSS MARGIN/SALES will offer some insight into management's ability to run the business.

## COMPARISONS AMONG VARIOUS BANK SIZE CATEGORIES

The final area examined were the commercial lending similarities and differences among the three different asset size categories. The similarities that exist are broad and general, compared to the numerous differences or "perceptions" of differences.

### SIMILARITIES

All the banks viewed the current overall banking relationship the borrower has as being important because satisfied bank customers are the biggest source of generating new loan agreements. All the banks are also stressing the importance of having banking relationships structured around "one-stop shopping."

All commercial lenders are in the business of lending money. They all do their own financial analysis, and they all believe that interest rates are market driven. Chuck Davis summed it up best: "As a creditor your looking to take the creditor's risk and to get paid for [taking] it. If everything goes right, you get your money back, and your paid for taking a risk."

The many differences that exist, whether perceptions or not, can best be divided into two categories: the formality of the bank's internal structure, and the formality of the bank-customer relationship.

## DIFFERENCES

### Level of Detail & Structure In Loan Presentations

The larger the bank, the more structured the decision making process becomes--this leads to highly structured loan presentations. Because a large bank will require a loan deal to go through three or four committees for approval, the loan presentation will contain more detailed financial and industry analysis. Many large banks will do complex pro forma computer generated models. Northern Trust will have loan reports that contain spreads, pro formas, management backgrounds, an industry analysis prepared from their own library, and a financial analysis (e.g. why profits are getting better). Warren Tisch also noticed this when his "small" bank merged with a "medium" bank--he found that the amount and level of detail required in memos, financial statements, etc. grew noticeably.

### Ability To Ask For Quality Financial Statements

A large bank's middle market borrower also tends to be larger than a small bank's middle market borrower. This and large banks' greater reliance on financial analysis presents the need for quality financial reporting. An article entitled "Limiting Exposure to Fraudulent Financial Reporting" in The Journal of Commercial Bank Lending, September 1989, came to the conclusion that lender's could "insist on statements that are prepared by accountants known to the bank..., [and they could] recommend that [borrower's] engage an accountant who is acquainted with their particular industry."

While ALL lenders felt that it was IMPOSSIBLE to recommend an accountant or firm because of lender liability laws, they all felt that lists of four to eight referrals could be presented to a borrower. For lenders at small banks, the thought of giving a list of accounting referrals was even more unrealistic. Because the small bank middle market customers are smaller requiring the lender to audit himself the internally generated statements usually presented, small bank lenders felt that the large banks were in a better position to ask for specially audited statements. Richard Haley of First National Bank of LaGrange (under $300 million): "Small banks can not realistically suggest that a company has its statements reviewed by another firm." Small banks do not have a legal department on its payroll.

Chuck Davis of Harris Trust felt that most larger banks are VERY demanding on attaining quality audited financial statements by big eight firms, strong local firms, or <u>well</u> known small firms. "We have had some very bad experiences--some of our major losses have been where we had some statements [being audited] by a one or two person firm. I'm not saying that [the one or two person CPA firm was] in collusion with the borrower, but that they were probably inept and were not really able to give a fair opinion."

Small and medium sized banks many times take on customers that larger banks don't want because the borrower doesn't have the financial information required by large banks.

<u>Quality Level of Bank-Borrower Relationships</u>

Lenders at small banks also felt that they had an edge on

better understanding what was going on behind the numbers; whereas lenders at medium and large banks believed that "edge" was only a perception.

Small banks felt they understood their customers better because they have more informal and relaxed relationships with their borrowers--they concentrate more on sizing up character than on analyzing financial statements. Warren Tisch: "We know our customers pretty well because we ARE a relatively small bank." Russell Boyer from The National Bank & Trust Company of Sycamore gave the example that with his bank's small size, a customer could walk in a have a meeting with the CEO.

Medium and large size banks' reasoning that the "edge" was only a perception was attributed towards their efforts to increase the meaningfulness of bank-borrower relations. For example, Continental Bank uses a team approach for each deal. This "team" consists of a relationship manager, a portfolio person to do the sensitivity analysis, a person from the department that spreads the statements, and a lending officer who acts as the salesperson.

<u>Purpose of Loan Origination</u>

The purpose of lending money separated the large banks (those $1 billion and up) from all other banks. Large banks many times originate loans not to earn interest revenues, but to earn service fee revenues. John Prosia felt that with his bank's medium size, his bank could not ask for fees from that size customer base. On the other hand, lenders at large banks found it easier to ask for such fees.

customer base. On the other hand, lenders at large banks found it easier to ask for such fees.

Jeffrey Baker explained Continental Bank's major purpose: "Continental is trying to pattern itself after Banker's Trust and Morgan where we endeavor to originate the loans and syndicate them out." Continental may also receive a piece of the financing. Jeffrey Baker explained the advantages as: it generates fee revenue, the bank remains in a controlling position regarding negotiating future terms of agreement, and the loan gets off the books. Continental will syndicate the loans out to: investor pools, trust funds, pension groups, individuals, correspondent banks, and any other parties that might buy a piece of the loan. Continental's other main purpose is to sell risk management products (e.g. interest rate swaps).

## SUGGESTIONS FOR FUTURE PROJECTS

While conducting the interviews and compiling the information, I came across specialized topics within commercial lending that students could use in future projects. These are listed below.

Examine the effects of lender liability laws as perceived by commercial lenders, and how the laws have changed during the last five years.

Examine market niches of various size and geographic banks.
(large banks vs. small banks)
(various size Chicago suburban banks vs. DeKalb & Rockford banks)

Comparison of commercial services and fees.

Banks most affected by the lifting of Illinois interstate banking regulations in December 1990.

The changing Northern Illinois banking environment that has traditionally been very dense, concentrated, and competitive when compared to most parts of the nation.

The trend towards banks aiming for fee revenues vs. interest revenues.

Discussion of the intense competition for residential mortgages for secondary market packaging among all types of financial institutions.

# Appendix A

## Interview Data: Six "C's" of Credit

| | CAPITAL | CHARACTR | COLLATRL | CAPACITY | CONDITNS | CONTROL |
|---|---|---|---|---|---|---|
| **SMALL BANKS** | | | | | | |
| National Bank & Trust - Sycamore | 3 | 1 | 4 | 2 | 6 | 5 |
| First National Bank of LaGrange | 5 | 1 | 3 | 2 | 4 | 6 |
| First of America Bank-DeKalb | 6 | 1 | 3 | 2 | 5 | 4 |
| First National Bank in DeKalb | | 1 | 1 | 1 | | |
| Bank of Hinsdale | 1 | 1 | 1 | | | |
| **MEDIUM BANKS** | | | | | | |
| Oak Brook Bank | 5 | 1 | 3 | 2 | 4 | 6 |
| AMCORE Bank--Rockford | | 1 | 3 | 2 | | |
| Lake Shore National Bank | | 1 | 1 | 1 | | |
| Columbia National Bank of Chicago | | 1 | 1 | 1 | | 2 |
| First National Bank of Rockford | | 1 | 1 | 1 | | |
| **LARGE BANKS** | | | | | | |
| Continental Bank | | 1 | 1 | 1 | | |
| Harris Trust | | 1 | 2 | 1 | | |
| The Northern Trust Company | ----each is important, no one area is #1---- | | | | | |
| American National Bank | ----each is important, no one area is #1---- | | | | | |
| LaSalle National Bank | | 1 | 1 | 1 | | |

***NOTE: not ranked were ranked equally and below those ranked.

# Appendix B

## Interview Data: Financial Ratios

| | Accounts Receivable Turnover in Days | Cash Flow / Long Term Debt Maturities | Current Ratio | Debt / Equity | Degree of Financial Leverage | Fixed Charge Coverage | Inventory Turnover in Days | Net Profit Margin Before Tax | Net Profit Margin After Tax | Times Interest Earned |
|---|---|---|---|---|---|---|---|---|---|---|
| **SMALL BANKS** | | | | | | | | | | |
| National Bank & Trust - Sycamore | S | P | P | P | | | S | S | | S |
| First National Bank of LaGrange | | X* | uses Quick Ratio | X | | | | X (any profit ratio) | X | X |
| First of America Bank-DeKalb | | X | X | X | X | | | | X | X |
| First National Bank in DeKalb | S | P | P | | | | S | P | | |
| Bank of Hinsdale | P | P | P | | | | | | | |
| **MEDIUM BANKS** | | | | | | | | | | |
| Oak Brook Bank | S | P* | P | P | | | S | | | |
| AMCORE Bank--Rockford | uses all the ratios | | | | | | | | | |
| Lake Shore National Bank | P | | P | P | Same as Debt/Equity | | S | S | | |
| Columbia National Bank of Chicago | | P* | | S | Same as Debt/Equity | P | | | | P |
| First National Bank of Rockford | S | P* | | P | | | S | | | |
| **LARGE BANKS** | | | | | | | | | | |
| Continental Bank | X | X* | | X | Same as Debt/Equity | X* | X | | | |
| Harris Trust | | X* | | X | Same as Debt/Equity | | | | | |
| The Northern Trust Company | X | X* | | X | | | X | | | Maybe Sometimes |
| American National Bank | S | P* | | P | | | S | S (any profit ratio) | S | S |
| LaSalle National Bank | S | P* | X | P | P | | S | X | | |

X - ratio used  P - Primary ratio  S - Secondary ratio  * any type of Cash Flow ratio or figure

# Appendix C

## List of Interviewees

### Small Banks: under $300 million

Russell Boyer, Vice President--Credit Manager
The National Bank & Trust Company of Sycamore

Richard Haley, Executive Vice President
First National Bank of LaGrange

Carl Heinisch, Senior Vice President--Commercial Lending
First of America Bank-DeKalb

Robert Keil, Vice President--Commercial Loans
First National Bank in DeKalb

Warren Tisch, Vice President
Bank of Hinsdale

### Medium Banks: $300 million to $1 billion

Jeffrey Brown, First Vice President
Oak Brook Bank

Robert Nowak, Vice President
AMCORE Bank-Rockford

John Prosia, Second Vice President
Lake Shore National Bank

Mark Spehr, Assistant Vice President
Columbia National Bank of Chicago

Peg Wilkerson, Commercial Lending Officer
First National Bank of Rockford

### Large Banks: $1 billion & up

Jeffrey Baker, Second Vice President--Private Business
Continental Bank

Chuck Davis, Chief Credit Officer
Harris Trust

Bob Jank, Commercial Lending Officer
The Northern Trust Company

Hugh McLean, Division Vice President
American National Bank

Thomas Ryan, Loan Officer--Metropolitan Banking
LaSalle National Bank

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