

Paradigms Shift, Principles Don't

A South Dakota Banker's 45 Year Perspective

Paradigms Shift

Paradigms Shift

“They know the oil business, we don’t”

Continental Illinois Bank

“They are the Big Bank.
If they buy the loan, it must be good!”

Penn Square Bank

Paradigms Shift

“God only made so many
acres of land and
he isn’t making any more!”

Paradigms Shift

“It’s a New Economy,
Net Profit Doesn’t Matter,
It’s All About Revenue”

Paradigms Shift

“Get yours today!
125% loan to value
Home Equity Line of Credit!”

Paradigms Shift

Has it Happened Before? Yes!!

Oil Patch/Texas Real Estate	'70's
Ag Land/Ag Crisis	'80's
Dot-Com Bust	'90's
Residential Real Estate Bust	'00's
Collapse of Oil Prices	'10's
Pandemic Responses	'20's

Will it Happen Again? **YES**
Emotion of People

Paradigms Shift

Leverage!

Community Banks	10-1
Lehman Brothers	40-1
Fannie/Freddie	80-1
"To Big To Fail" Banks	100-1

No Equity/No Reserves for Downturn

Paradigms Shift

1970's

- Savings and Loan Crisis
- Loans at 3-4% for 20-30 Years
- Extension of Loan Terms with Low Spreads
- Rates Escalate to 18%+

Paradigms Shift

2007 First PREMIER Bank

- 1.50 % Loan Loss Reserve
- Letter From Audit Firm
- Report of Exam – Federal Reserve
- Banks Loan Loss Reserves are Excessive!!!

Paradigms Shift

Fannie Mae

Freddie Mac

Mission/Purpose –

Provide Funding For American Home Owners

of Loans per person

10 dropped to 4 in late 2008

Paradigms Shift

U. S. Housing Problems

- Florida, Nevada, California
200 - 300% Value Increase
- South Dakota, Texas, Oklahoma
20 - 30% Value Increases
- Housing Unit Growth = Job Growth

Paradigms Shift

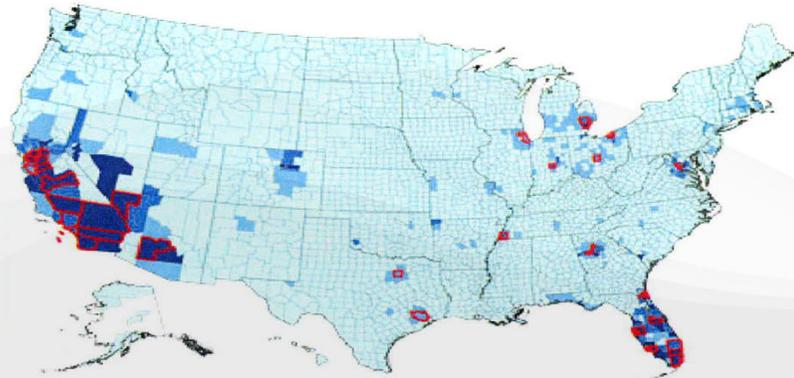
Confined Crisis

35 Counties Accounted for
50% of Foreclosures

650 Counties saw
Foreclosures Decline in '08

County by county, the number of foreclosure actions — default notices, auctions and repossessions — per 1,000 households.

0 - 20 20.1 - 40 40.1 - 60 More than 60



2008

Paradigms Shift

2020 U.S. Auto Sales

- 14,600,000 Units
- 240,000 Electric
- 1.6%
- 640,000 Class A Motorhomes

Paradigms Shift

Bank Deposits 2021 vs. 2020

Checking Accounts	↑	100%
Savings Accounts	↑	33%
Money Market Accounts	↑	18%

What Impact?

Paradigms Shift

FUTURE??

Covid Response
“Quantitative Easing”
Inflation
Let’s Just Print \$8.5 Trillion
Tariffs
Supply Chain

Paradigms Shift

Morality of Lending

“At Least Your Customers **Intend** to pay you back!”

Oil patch Banker '79

“Millions of student loan Borrowers Delinquent!”

Star Tribune 4-22-25

66% Past Due – Not Making Payments

5 years No Payments Required

Principles Don't

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Down Payments Are Important!

- 60-40 to 99-1
- 100% LTV +
- “Down payments based upon ability to pay”
- Low Doc./No Verification Loans

Principles Don't

Personal Knowledge and Experience

- Penn Square Experience
- Out-of-territory participation loan
- Inspection and Relationships
- Bankers can only be wrong ½ of 1% of the time

Principles Don't

Cashflow Is Critical!

- Iowa Farm Loans
- Washington DC Home Loan
- Dot Com Debacle
- Enough Profit – Restaurant Example
- Proposed Business Plan That Doesn't Work

Principles Don't

Importance of Liquidity

- Crisis of Liquidity
- Cash vs. Property
- “Insurance Policy”
- Reasonable Expectation of Cash Generation

Principles Don't

Capital Is King!

- Lessons in Leverage
- Supplemental Capital vs. Venture Capital
- Liquid Capital is Best!!

***Never Compromise
Your Principles***

Thank You