

How to tell when your customer's a bad egg, or at least, a scrambled one

By Steve Cocheo, executive editor, scocheo@sbsub.com

Ed O'Leary, our "Talking Credit" blogger, used to know a businessman who made a habit of parking around back of a company. He'd ask somebody on the loading dock where to find the executive he was there to see. Sure enough, he'd be escorted from the dock back through the plant to the executive offices, where he'd keep his appointment. Meanwhile, he'd had a good overview of how well the company was doing, how attentive management was to the day-to-day business, and more.

People and companies send many signals they don't want to send, or don't realize they are sending, said O'Leary. Sometimes these tip off a savvy banker to a company that's in trouble, and sometimes they indicate a customer that's not dealing straight with you. No matter the cause, what you see, what you hear, directly and indirectly, that smells like trouble, must be followed up.

"Bankers have to love gossip, because that's how we get our information," said O'Leary.

Beyond that, there are three warning signs:

1. Declining deposits. Average checking balances are way down from typical levels—or the customer is even overdrawing their account, when they never did so before.
2. Late financials. Quarterly financial statements arrive late … or they don't arrive at all.
3. Disappearing act. "Typically, the borrower becomes less available to the banker," says O'Leary. "The silence becomes deafening."

What do you do when signals indicate trouble or outright evasion or lying? A good first step is to exercise a lender's essential right to inspect its collateral on request. O'Leary doesn't favor a surprise inspection, but a pre-announced visit that gets the banker's eyes and feet on the premises.

"I found you could look around a place and tell how business was," said O'Leary. Just like the businessman described earlier.

[This article was posted on September 24, 2009, on the website of ABA Banking Journal, www.ababj.com, and is copyright 2009 by the American Bankers Association.]

