

---

## TEN TIPS TO SPOT BORROWER TROUBLE

You can spot trouble coming, if you look and listen. Here's how

Everyone is talking about transparency these days, even FRB Board of Governors Chairman Ben Bernanke. So it's something we need to understand and it's not hard to do. Our actions should be understandable on their face. What you see is what you should get.

### The transparent lender

We are very transparent as human beings. Most of us operate as if there are only two categories of secrets—those too good to keep and those not worth keeping.

As lenders we're transparent.

- We're suspicious of everyone and everything and it shows in our actions in large ways and in small.

- We're conservative and tend to feel comfortable only when we're lending to someone who doesn't really need the money.

- And when we are displeased, the world knows it. We scowl easily.

These are simple generalizations but they describe a lot of the personal traits of us as lending practitioners, correct?

### The transparent borrower

What about the borrowers? Can we state some simplified behavioral characteristics for most of them?

How about a pretty consistent optimism, a faith in themselves and their businesses, a good work ethic and generally sunny personality types?

As this recession continues, and some of our customers encounter more difficult times, these generally observable characteristics may change or morph into behaviors that are quite different.

Most of your customers and mine are mature people. Folks who can handle a degree of stress and strain.

But difficult circumstances can lead to overt changes in behavior. Be on the look out for them, even relatively slight ones. You might be seeing something important for you to explore and understand.

## Ten tips for seeing through the wrapping

You can't x-ray someone's thoughts. But you can watch for clues:

1. Failure to confront changed circumstances. The first thing that many business people fail to do is to really confront the reality that something's wrong. This is a process, not an event. Some people progress through the recognition stage quickly, while others take much longer. Look for the ebullient personality types who are less voluble all of a sudden. Are they telling you something in their silence?
2. Just listen. Keep your ear to the ground among business people in the community. They are reading signals, too, and see and hear things that you don't always know about. Just keep your ears open and you'll hear a lot if you put yourself in a position to hear.
3. Observe "local business indicators." Look at the conventional metrics of business activity in your community. Each community is different but the similarities are much stronger than the differences. If you are seeing a downturn in certain types of activity, then do a little "what if" analysis and see where the thought process takes you. It might lead you to be particularly concerned about some types of businesses and less so about others.
4. Mind the deposits. Watch the average balance histories of your customers. Most banks have this information in current and readily available ways. If cash in the bank is noticeably dropping, take a closer look. Maybe business is slowing down—or maybe it's falling out of bed. Go look for yourself and make a first hand assessment.
5. Look for any change in overdraft behaviors. Often by the time you see customers on the overdraft list, their problems are fairly well advanced. Still, you might spot something sooner if you're looking for signs of trouble.
6. Watch for late financial statements. If you normally get financials a couple of weeks after the end of the month or quarter and suddenly the interval lengthens considerably, then that may be a sign of impending trouble.
7. Spend more time out of the bank and in customers' places of business. You'll learn much more about your customer at his place of business than having lunch with him at the country club. Little things like how full his parking lot is can tell you volumes—if you're paying attention.
8. Try to see the world as the customer sees it. He or she probably doesn't want to advertise his difficulties, particularly with you or me. So be "present" to him or her. Provide the opportunity for a constructive and timely dialogue.

If your customer really does respect and trust you, he'll be forthcoming. But you may have to take the first step.

9. Get your ducks in a row now. If you suspect a significant or deepening problem, do a little desk audit of collateral, loan covenant compliance, and be sure that the information in the file is current and complete. Fix any collateral and credit exceptions that may be outstanding. You can fix a lot of things early on that will be very difficult to accomplish later.

10. Be mentally prepared for the worst. If you're wrong, then you'll be pleased. If you're right, then you'll have a jump start on the fix.

What warning signs have you learned to watch for? What new twists are you seeing these days?

Share them with the rest of us, below.

About Ed O'Leary:

Veteran lender and workout expert O'Leary spent more than 40 years in bank commercial credit and related functions, working with both major banks as well as community banking institutions. He earned his workout spurs in the dark days of the 1980s and early 1990s in both oil patch and commercial real estate lending.

O'Leary began his banking career at The Bank of New York in 1964, and worked at banks in Florida, Texas, Oklahoma, and New Mexico. He served as a faculty member and thesis advisor at ABA's Stonier Graduate School of Banking for more than two decades, and served as long as a faculty member for ABA's undergraduate and graduate commercial lending schools.

Today he works as a consultant and expert witness, and serves as instructor for ABA e-learning courses and a frequent speaker in ABA's Bank Director Telephone Briefing series. You can hear interviews with Ed about workouts here. You can e-mail him at [etoleary@att.net](mailto:etoleary@att.net). O'Leary's website can be found at [www.etoleary.com](http://www.etoleary.com).

Order Ed O'Leary's two-hour "Improving Your Bank's Workout Function" CD