
CONTRARIAN VIEWS ON WORKOUTS

Are your own attitudes sabotaging workout success? But, then, asks Ed, what's your definition of workout success?

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My years in the workout trenches taught me many lessons-probably many more than I ever wanted to learn. Some have been invaluable, though, as I've had a ring-side seat-and a first-hand role as well-on the behaviors of bankers and borrowers in three major banking crunches. I've seen what can go wrong. And I'm seeing some of the same things again.

I've said before that the young lender going through the current period can't buy better experience than he or she is getting today. I'll come back to that.

But first I want to explore some attitudes that aren't helping, and some of the roots they grew from.

Why do bankers miss the warning signs? And do they really?

Bankers often seem slow to read the signals that a borrower's in trouble. But that's not always so. Sometimes, while they seem not to know, if they are attentive, the signs are there and at some level, protestations aside, they are read and received with some awareness.

But why, then, do otherwise intelligent and experienced people initially tend do nothing? Why do they turn a blind eye?

First of all, bankers are trained to see opportunities first, problems later.

Most of us don't build our careers on a series of negative experiences. If we're good at credit and good at sales, then these attributes are rewarded and we become conditioned to derive job satisfaction and promotions from these favorable circumstances.

Problem credits are often the seamy side of banking. We just don't seem to enjoy the problems.

This leads, then, to the first of my contrarian notions: Good credit people do not automatically make good workout people.

I'm not sure we all read the same signals with the same comprehension. Yes, lender skill sets are similar. Lenders have analytical minds and we know how things are supposed to fit together. We are trained to work toward a harmonious

outcome.

Yet we don't often spot when things go awry, at least initially.

Could it be that banking as an industry doesn't train lenders as well as we think we do?

Does serving years on a lending desk or working for several banks in lending capacities over a period of years truly make us experienced? I think our expectations may be misplaced, based on the experience of the current business cycle.

Can workouts really work out?

My next contrarian idea: Complete rehabilitation of a problem borrower is not necessarily possible.

While the objectives of our managements, ownership, and state and federal examiners concentrate on minimizing criticized asset totals, is the rehabilitation of a troubled borrower a realistic expectation?

Indeed, in some environments, is it even possible?

If a borrower has experienced deep credit problems, then can the memory of that experience ever be erased in the minds of the lenders and permanent staff credit people?

Even if the borrower proved completely innocent of any wrongdoing, and was a victim of circumstance, can the memory of a significant credit problem be completely forgotten?

As hard as you might try, I'm not sure it's possible.

If the borrower contributed to his problems by unwise or foolish actions, should he or she be "forgiven"? Should all be ultimately forgotten, in the quest to build earning assets of the bank?

Ponder that. But here's my ultimate point: If the culture of the bank is such that credit problems of the past are not forgotten, should you even, for the good of the customer, try to retain his business?

You've got the obligation to get the criticized asset totals down. Getting a problem borrower at least rehabilitated sufficiently to move his business to another lender is a worthwhile effort. That's your job as a workout officer.

Borrower as culprit or borrower as victim?

Now we come to a pair of viewpoints-polar opposites, in fact-that deserve careful attention. They may largely shape your management's view and your own thinking and detract from a successful outcome.

View 1: One extreme is that the borrower is almost always culpable.

The impending failure is the borrower's fault. The cause: lack of management, lack of an adequate plan, lack of vision, lack of skill, etc.

Personally, the underlying premise of this reasoning seems to border on arrogance.

The bank is seldom seen as capable of making an error with its superior culture, its superior approval structures, superior loan review, superior staff, and so forth.

We drink deeply of our own bath water at times.

However, the opposite view can be just as wrong headed.

View 2: This viewpoint casts the borrower as the victim of circumstance.

The economy went south. Real estate prices collapsed. The business plan was flawed.

What this attitude does is to spread some of the responsibility for the borrower's dilemma to the bank itself.

Think long and hard on that one.

If you let yourself go down that line of reasoning very far, you'll be in that credit up to your eyeballs-and for a long time.

Let me tell you first hand that both of these attitudes-the borrower as perpetrator and the borrower as victim-are alive and well in the minds of many lenders today.

They are not often immediately evident. But the ideas may nevertheless be sufficiently vigorous within your banks to infect your own thinking and the outcome of your efforts.

Two points to keep you on track

Speaking of those efforts, there is much gloom out there these days. Let me let in a little bit of sunlight. For banks that are struggling with credit quality issues, the picture is not entirely bleak.

1. People: Your bank probably has all or most of the resources available to tackle the problem assets right now.

You have lenders who can analyze and negotiate (that's what we do, right?) and they can be assigned, temporarily for the duration of the crisis, to workout duty.

2. Knowledge: It's also very likely that the problems in this economy are widely enough known and understood, so they are not hidden time bombs.

Further, you should know by this late in the business cycle who can make it and who likely cannot.

You, your colleagues, and the crisis

What I'm suggesting today is to take stock of your own attitudes and those of your colleagues. Figure out if your mindsets are helpful to the solution or if they are impediments.

Everyone is watching.

Those who figure out how to restore problem assets to health and do it with grace will ultimately prosper.

There will be no better trained lender or more empathetic banker than the one who has met the challenges of 2010 and survived.

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- 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 free audio interviews with Ed about workouts here. You can e-mail him at etoleary@att.net. O'Leary's website can be found at www.etoleary.com.

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