TRAINING AND CREDIT CULTURE: AN INDISPENSIBLE PARTNERSHIP

Which of Ed's five classic credit officer types wouldn't fit into your bank's culture?

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As the community banking industry gradually heals from the difficulties of recent years, I continue to be concerned with the inadequate state of credit training at many community banks.

Training is a significant drain on any company's resources. It's not just the staff time and the money but also the management effort, focus, and consistency that a successful effort requires.

The needs are impressive and urgent.

There are two interdependent reasons why the industry needs to pay attention.

Growth without change

First, community banks have grown dramatically both organically and by acquisition.

A small community bank 15 years ago may be a small- to medium-sized regional bank today. Its lending product line probably bears little relationship to the more limited offerings of the past. (And note that many knowledgeable people are predicting that there will be further consolidation over the next few years among community banks, due to Dodd-Frank and other factors.)

A lender might be working at a relatively-decent sized bank today but was his or her formal training more characteristic of a smaller bank or a larger one? Consistency and complexity are two words to describe the differences that usually exist between the two training models.

This may be obvious and is like saying that 15 years lending experience may be one year's worth experienced 15 times.

Are elements for strong credit culture present?

But here's the second part of the urgency. A strong credit culture must be taught and reinforced. It's not all by imitation either. There are some things that have to be taught and repetition under supervision and a watchful eye is usually a necessary component of personal career growth.

A bank's credit culture is a shared set of expectations regarding outcomes of its lending activity. As recent experience has taught (and regrettably not for the first time in our working lives), some banks are better at it than others.

We value diversity in our workplace today, but one place that diversity may be a glaring weakness is in the lack of shared understanding and appreciation of how to successfully lend and collect depositors' money. I'm going to make my point by

looking back on some of the things I've seen done in decades of lending.

Some characters from Ed's cast of characters

Here are composite character sketches of some past lending colleagues in the different banks where I've worked. Each has had at least ten years of experience as a lender. But do you value equally the various ways that they have been trained and show their acquired experience? (As I stated, these are composites, and not directly analogous to specific people I've known.)

"Ralph"

"Ralph" is 36 and grew up in an upper-crust suburb of a large East Coast city. He never completed a formal training program but found his way into banking as a teller in a community bank during summer vacation before his senior year in college.

Ralph is widely regarded by his peers and bosses as a good lender. What impresses the CEO, who is not a lender by experience, is the way Ralph uses the Risk Management Association statement studies to compare and contrast his borrowers with some independent industry standard.

No matter that the SIC may not fit very precisely or that the borrower's activity is actually a composite of two or three standard industry classification codes. Ralph's "signature" is a comparison of virtually every borrower's balance sheet and income statement to the RMA studies as a bench mark.

"Sam"

Sam is 32 and has been a banker for three years. Before that, he worked for GE Credit, having completed the company's formal training program.

Sam is without peer in analyzing the financial strength of small- to medium-sized manufacturing businesses. Management has noted that sometimes he's a bit "rough" around the edges, reflecting the customer base of his previous employer.

(He also always looked like he got dressed in the dark.)

"Bill"

Bill is 40 and joined the bank right out of one of the state's public universities. He is very personable and works as hard as any of his peers.

He's focused on any task at hand but does not handle multi-tasking with customers and prospects comfortably. Bill is thorough and diligent, with a tendency toward a one-size fits all view of the world.

"Paul"

Paul is the old man of the group, at 52.

Paul was a math major at the University of Texas and completed all the course work for a PhD. However, a growing family interfered with his completion of the thesis requirement. He was formally trained as a petroleum engineer but ended up at a community bank when the bank was in need of considerable assistance in working out oil field equipment deals several years ago.

Paul enjoys his work as a banker, but at times seems a bit impatient with the bureaucratic structure of the bank, being more accustomed to and comfortable within a smaller bank environment. Paul was acquired when his former bank merged with his current employer.

"George"

George, who is 34, had formal credit training at a regional bank and specialized at an early point in serving high-net-worth individuals.

George's customers are among the bank's "best" and he treats them with the finesse and attention that high-net-worth individuals demand. George was hired away from his last bank at the strong recommendation of a director who thinks George has the makings of a chief lending officer. He moved several valued new client relationships over from his previous employer.

These are all good people and I still get Christmas cards from some of them.

Now, here's the challenge

One of the most enduring characteristics of a strong credit culture is its ability and tendency to weed out those who don't "fit."

I'm not talking about people with ethical shortcomings or who cannot get along with co-workers. Rather, I believe that cowboys have no place in lending the bank's money and entrepreneurs should not have significant loan authority.

Now, call yourself a CEO, or a Chief Credit Officer: Do you see traits in these brief sketches that might create complications or problems for the long-term success of a bank's lending function? If you have a thought, make a comment below, please.

So where does training fit in?

A healthy, strong credit culture serves as an invisible but effective internal control mechanism.

For it to work its best, it must rely on a common set of expectations, standards, and acceptable levels of personal performance.

This is what a good training program can do for a bank's culture.

The job in fact is never truly completed but once established, a solid training program will guide the collective behavior of the institution's lenders. It's invaluable to success but it just can't happen by itself.

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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.