

## TRAINING AND CREDIT CULTURE 2â€™PART RULES, PART STORIES

Programs will vary, but both formal skill sets and mentoring are needed

Last week I said that the credit culture of a bank rests firmly, in part, on the foundation of sound credit training. Community bankers come from a variety of backgrounds varying from the size of a bank to the complexity of its credit product line. Their training is often characterized by a lack of formality and consistency in acquiring the principles of sound credit. I offered a few &ldquo;composite characteristics&rdquo; of lenders I&rsquo;ve known with community bank backgrounds. Hopefully these advanced the proposition that training inconsistencies can result in a certain systemic diversity that does not help solidify and codify a sound credit culture.

Here some more caricatures to further make the point.

Robert&mdash;Your &ldquo;Paralysis by Analysis&rdquo; Pro:

Robert is old enough to be very credible with his mane of salt and pepper hair and his pipe smoking demeanor but frankly, I always thought that they camouflaged a more or less empty head. He was and likely still is a master of the written word in support of credit extensions. His write-ups for committee were seemingly endless in length and contained much &ldquo;elevator analysis&rdquo; of what went up and what went down. Maybe his apparent lack of imagination was his virtue: he&rsquo;d never get you into trouble. What about helping the customer with some fresh thinking or ideas? No. He was not your man for that.

Fred&mdash;the President&rsquo;s Bag Man:

Fred is a likeable 30-something lender who filled the indispensable role of bag man for the athletically minded president of the bank. The beginning of each credit committee meeting was occupied by Fred taking odds, collecting bets and making payouts on successful wagers on sporting events and bantering in seemingly endless ways about sports. The &ldquo;community building&rdquo; aspect of that contributed to the morale of the officer staff though it probably diminished Fred. He didn&rsquo;t seem to know when fun should end and business begin. He was a bit inconsistent as a lender too&mdash;a tendency that seemed at odds with his diligence as bag man.

&ldquo;Father Rick&rdquo;&mdash;the Chaplain:

Rick was a laicized Roman Catholic priest who had four academic degrees including a doctorate in moral theology from one of the Church&rsquo;s schools in Rome. Apart from being one of the smartest guys any of us had ever met, he also gave us the opportunity to explain with a straight face to customers that we could inter our bad deals &ldquo;with benefit of clergy.&rdquo;

What do those caricatures have to do with a credit culture you may ask? When and where are the life long work habits, skills and attitudes of a lender acquired? Is there a formula or a syllabus somewhere to provide guidance? How do you ensure consistency?

Building a sound credit culture is a responsibility shared by all participants in the workplace. Needed skills include both the formal ones associated with financial analysis but also the mentoring of word and example by the more experienced toward the less experienced. There should be a consensus on these things and a commitment to both quality and consistency by both management and the board to this process.

At The Bank of New York in the lending officers' training program that I completed, the functional "dean" of students was the head of the credit department. He was a source of great credit experience and wisdom gained both from books and years of experience. He was also a wonderful story teller who would embellish his commentaries with personal details and anecdotes of bank officers and customers. What I only came later to understand was that these details were essential components of what successful lenders needed to know. They contained the rules, regulations, etiquette, and expectations of the bank.

The other important aspect of The Bank of New York's program was how it was integrated into the regular and formal work of underwriting and monitoring credit. We trainees were doing important components of that work and were supervised under several pairs of experienced and watchful eyes of a permanent credit cadre.

Each bank has to find its own "delivery model" for credit training. The model should be comprised of both the essential quantitative skills but also the qualitative skills of providing a smooth and consistent means of credit delivery to the customers. I sense in talking to and working with community bankers in recent years that many community banks have lost a sense of urgency and purpose in their training efforts.

This becomes a problem at two levels. First, the risks to the organization should be obvious. Less skilled lenders represent hidden risks—credit risk, capital risk and operational risk. Why operational risk? Well, that's defined as the risk to capital and earnings of not maximizing the long term profitability of the bank. It can be as important in its own way as credit risk.

The other risk is that the individual never maximizes his or her skill sets. That's an irreparable loss to both the person, the bank, and the industry. It also puts a premium on the experience of those from the larger component of a community bank merger. That seems inherently unfair toward the others.

While I don't have any silver bullet, I do have an urgent message to bankers who face uncertain environments: Take control of your future by improving your skill sets. Be strong where the bank is strong and be ready for the challenges of the next credit cycle.

Start now. The next credit cycle has probably already begun.

- 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](mailto:etoleary@att.net). O'Leary's website can be found at [www.etoleary.com](http://www.etoleary.com).