
EIGHT WAYS TO BETTER WORKOUTS

Maybe you think you've done your best. But there's more you can do

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If you like this column, read the followup column, "Where workouts meet lender liability ."

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From my conversations with community and regional bankers over the summer, it sounds like the workout loan business is as "robust" as ever.

Certainly the FDIC problem bank list, based on the June 30, 2010 Call Report information, confirms that the problems continue and may be a bit worse nationally than earlier in the year. Slightly more than 10% of the country's insured banks are on that list.

While that's not 10% of banking industry assets, it is still a lot of heartburn for managers and boards of directors who are directly impacted.

Question is, what can we all do for relief? Everyone's in workout mode, obviously, but how can it go better?

Eight ideas for better workouts

We've known for some time that the virtual tidal wave of problem credit was heading our way so it's not that we should be particularly surprised. Consider too that FDIC and the Comptroller's Office began warning banks about real estate concentrations starting nearly four years ago. What are we not doing that we could be, or should be, doing?

Here's a list that I'll start and maybe you can add to it. These are several lender behaviors that occur to me that may be shortcomings tending to aggravate the task of reducing problem asset totals at our banks.

1. Readjust your internal radar. Most lenders are business developers by training. We're sales people. We are quicker to see opportunities than problems.

Is it time for new glasses-or at least certainly a new prescription for some lenders?

2. Know when to fold ‘em. Many of us have a tendency to over-identify with our customers. We have a very hard time recognizing when we are banking a lost cause.

A phrase heard too infrequently out of many of our mouths is "no more."

3. Don't go cheap on cleanup resources. We deny ourselves the proper tools because of cost concerns.

Sure, cost is important. But lacking the proper tools and resources is much more costly in the long run, and may unnecessarily be jeopardizing the ability of the bank to survive.

4. Rethink what workouts are. We sometimes fail to appreciate our greatest strengths. Problem asset administration is a constant string of "de novo" underwriting decisions.

Apropos of my comment in Point 1: Are we failing to use our best lenders most effectively-by not quickly assigning them to the bank's worst problems?

5. Who owns the problems? And who do they speak for? Is there sufficient independent oversight or perspective of problem asset administration?

Committees can be constructive. But they can also degenerate into lowest common denominator sorts of thinking.

Is the oversight process-whatever that is in your bank-comprised of people who can represent the stockholders as well as the troubled borrower?

My own experience is that the loan officers represent the borrowers very well. But where are the voices that will say with increasing urgency, "Enough is enough"?

6. Rethink the organization chart. Has your bank set up the appropriate staff for the long haul? This is a combination of resources as well as attitude.

Once a bank is in full workout mode, things won't become appreciably better until the local and regional economies improve. Fortunately, there are some tentative signs that are encouraging. But it's still going to take a long while, probably several more quarters.

Once a loan is criticized, it takes performance to demonstrate a return to health. We didn't get into this overnight and we're not going to get out of this overnight.

So think beyond "provisional" planning. You are where you are going to live for a while.

7. Put yourself in examiners' shoes. Does your bank consistently put its best foot forward with regulators?

Too often we are reactive, rather than proactive.

- Do we know our customers' situations well enough?
- Do we sound like we're on top of our credits?
- Is our documentation and file housekeeping all it should be?

At my old bank Midland we used to say, "This file needs a new coat of paint."

That conveys the idea that we need to look, as well as sound, like we know what we're talking about.

8. Acknowledge the truth and get on with the cure.

Are we candid with each other and Loan Review and our board members about the condition of our credits?

Or do we wince internally when someone wants to talk about our problem credits?

Problem credits don't take care of themselves. They have to be managed and that's hard work.

It's also as creative as anything we will ever be called upon to do as bankers. It's experience that you will use one way or another the rest of your working lives.

Addressing the inventory-both kinds

It seems to me that the problems are hanging on in some banks longer than they should.

Now, I've been through times like these. I'm sure that each of you handling a portfolio of a few or dozens of problem assets honestly believes that you are doing everything you can.

Let me tell you that some of you probably aren't.

There may be still attitude adjustments that need to be made.

And the most urgent of all is the credit-by-credit decision on whether a particular customer can survive.

That's hard and it takes an emotional as well as physical toll.

It's time to do an attitude inventory.

Start there and see where this leads you. Loyalty to a customer is commendable, but the higher loyalties are to your bank, the depositors, and to the community.

None of them are well served by a sick bank.

Learn from the pain now

Finally, do you, your management, and colleagues have a clear sense of what happened to your bank and why?

• If your credit policy was deficient or too vague, have you fixed it?

• If the wrong people were lending money, have they been sent on their way?

• If your bank had an inadequate commitment to internal controls, has this been fixed?

If you have done everything you know how to do and done it as best you know how, then there's only one thing remaining.

That's to be brutally realistic in assessing the probabilities that each problem customer will survive or fail.

This is probably the hardest step of all, as it's tough to admit a failure.

Share what's worked out in workouts for your bank in the comments section 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 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.