O'LEARY FILES: GETTING RID OF MR. IN-BETWEEN

Removing an unacknowledged source of friction made all the difference in turning around a troubled loan.

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Not long ago I was talking to a banker who handles a portfolio of problem loans.

This is an educated, well-trained banker with about ten years of varied lending experience with the same bank. He knows his customers, the community, and his bank as well as anyone can.

He finds his assignment hard work, he told me. His customers are frequently uncooperative, making his new job considerably more difficult than he imagined it would be.

Ed O’Leary once found that getting “Mr. In-Between,” a business advisor, out of the picture helped put a problem loan back on the track to recovery.

I wondered why he was finding his current work so difficult.

Now, I don't want to trivialize the administration of a problem portfolio. I know first hand that it's usually very demanding work and not everyone is necessarily suited to the occasional conflicts that arise.

But the conversation got me to thinking. And then a chance encounter brought me back to a borrower who once tested my patience. We found a way to make things work. Perhaps those of you who are feeling exasperated can find some answers in this story.

Talking to the eye guy

Not many days after this conversation, I attended a make-up Rotary meeting at a different club than my own and ran into a prominent, recently retired eye surgeon who used to be my customer.

He greeted me cordially and we visited during lunch about our respective post-retirement activities. It occurred to me that this pleasant conversation would have been impossible nearly 20 years ago, when I first got to Albuquerque, N.M. My bank at the time was under a Formal Agreement, asset quality was marginal, and our problem assets were significant and growing.

And this eye doctor was a problem customer, with a reputation for being very difficult to deal with.

I met the doctor in my first or second month at the bank (where I had been hired as president and CEO). We had loaned him a substantial sum about 18 months before. The money had been for the acquisition of a developed but unimproved tract of real estate on which he intended to erect a professional office building to support his growing practice. The deal had become "derailed" due to the local economy and we weren't very interested in new real estate lending opportunities at that time.

The doctor could service interest but could not make any significant or regular curtailment of principal. So what we had was a stagnant credit.

The examiners criticized the deal, probably as much for the somewhat casual way the loan had been negotiated, structured, and serviced since inception as for its delinquent status.

In fact, we were being taken to the woodshed by the examiners on this deal and several others like it for the way we were conducting our business. As I grew familiar with the portfolio and the nature of the examiners' criticisms, I largely agreed with them-although they exhibited a conspicuous talent for making virtually any troubled loan conversation with them disagreeable.

Finding the real source of trouble

At a loan committee meeting during that time, this doctor's deal came up for renewal. The loan officer was proposing a full renewal for 12 months, interest-only monthly, with no reduction of principal.

The doctor's financial advisor had requested a three-year bullet maturity renewal, interest quarterly, and a slight reduction in the rate, too.

I listened to the discussion. Then I asked if the financial advisor had our confidence.

It turned out to be just the opposite. The doctor did all his financial negotiating with us through the advisor, who by now was heartily disliked by the servicing officer.

It occurred to me that maybe the problem was the advisor rather than the doctor.

Confrontation turns to consultation

In the end, the deal was renewed-our way (for want of any attractive alternative)-and within a week or two, a rather sharply worded letter arrived from the doctor addressed to me as the bank's chief executive. He excoriated the bank for its unreasonable stance, etc., etc.

I hand wrote a response across the bottom of the letter to the effect that it seemed to me that the doctor was not well served by his financial advisor. I added that, based upon the doctor's outreach to me, I'd like to pay a call on him and discuss his situation.

It worked. I had an appointment in less time than a patient could get in and I talked to him about his deal, our attitude, the constraints we faced, and the predicament that each of us was in.

The outcome was that the financial advisor was removed from any contact with our bank and the doctor made time, grudgingly at first, to negotiate directly with the servicing officer.

In less than a year, the relationship had healed up pretty well and the loan officer negotiated some additional collateral in the form of a life insurance policy with some meaningful cash surrender value.

This didn't change the borrower's financial situation overnight. But it improved the climate between the doctor and the bank, and even the examiners seemed mollified.

About 18 months later, the local economy had improved somewhat and real estate credit was again available for worthy borrowers. The doctor found another lender, a bank that had previously dealt with his new partner. Our loan paid out and everyone was pleased with the ultimate result.

We never loaned the doctor any more money but we made him a substantial wealth management customer and in time he began to refer business to us.

Cooperation doesn't mean "caving"

What's remarkable about this story? Nothing, perhaps, as it was simply a matter of looking for ways-and finding one-to eliminate a source of friction from an interpersonal relationship.

Friction is perhaps inevitable in some relationships, but it doesn't have to be the norm.

We can work smarter in lots of ways by figuring out how to be agreeable without bending our credit rules or compromising our culture.

The solution here was a non-financial one. Perhaps we're missing these and other simple ways of improving our customer relationships. This is one area where listening skills are important in credit committee deliberations. How many relationships have we seen go off track by our not listening attentively?

Credit salesmen are good talkers. But the best ones are equally good listeners.

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.