# ARE YOU A DOCTOR OR A BANKER? OR A BIT OF BOTH?

Interesting parallels between loan workouts and the practice of medicine

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A close friend died of cancer recently, and this got me to thinking about the course of his disease and treatment. I quickly came to realize that treating a serious illness such as cancer can be strikingly similar to working out problem credit.

Preventing problems and detecting them sooner

First, a good program of prevention improves the odds of avoiding a major illness as well as improves the odds of surviving it. It "stacks the deck," so to speak, with odds more in the victim's favor than doing nothing and being completely passive.

Second, early detection is usually key to long-term success. The earlier the problem is diagnosed, the better the chances are that it can be contained and successfully treated. This is why men have PSA screenings, women have mammograms, and people in high-risk groups (such as fair-skinned people living in the Southwest) regularly visit the dermatologist and use sun screen liberally..

Handling the warning signs and making sense of them

It's an almost obvious point to those working in Loan Review that if an underwriting deficiency in a portfolio of loans is difficult to detect, it's usually easy to fix. If it's easy to detect, then it's likely to be hard to fix. Think of a portfolio of loans riddled with exceptions. It's hard to conclude that there's a problem if a relatively few exceptions are detected in a rigorous periodic inspection of the credit and collateral files. However, by the time one sees lots of exceptions, it's probably too late to easily alter the portfolio's risk profile.

When a major disease is diagnosed, aggressive treatment is often indicated.

When confronted with potentially life-threatening health situations, the tendency is to react with all the resources at one's command. That's what we as humans tend to do and it's in our DNA.

The most basic human instinct is physical survival. Maybe one has to experience a real health scare to understand that fully.

Choosing the aggressive course

I have direct experience with cancer in my family. My wife received a diagnosis of breast cancer several years ago.

Fortunately it was discovered as part of her annual mammogram screening and the cancer was small. It was of a fast-growing type but its size and stage provided the oncologist and the surgeon with the basis for a range of treatment options. Though my wife considered them all, she quickly opted for the aggressive approach. Aggressive treatment seemed to offer better odds for long term success and the doctor agreed. She's now a 16-year survivor.

Does this happy circumstance owe itself to the early detection or the aggressive treatment? I guess there was one way to get an indication of that but that would have been to be less aggressive in the treatment and that was not seriously considered.

In other words, we just didn't know and because of that, she was more cautious (aggressive in her approach).

The analogy to working out problem credit is clear, at least to me.

The first and best line of defense is a conservative credit culture with effective loan policies and an established and thorough loan review discipline.

The second line of defense is early detection.

In addition to good systems and processes, this also relies heavily on loan officer watchfulness and a healthy dose of realism. This is not always a salesperson's strong suit, when confronted with a problem, so it's hardly foolproof. Some individuals and some banks, owing to their cultures, do it better than others.

Finally, if there's a problem, it should be dealt with aggressively. Clichés and aphorisms abound on this topic. The most familiar is probably, "The first loss is the smallest" but there are others that more or less get to the same point.

Any bank with a mentality of prevention, early detection, and aggressive reaction will invariably fare better than one lacking one or any of these defenses.

Parallels between workouts and terminal illnesses

One personal observation about cancer and bad credit dates back to our days in Midland, Texas. My wife became a hospice volunteer and had several years of incredible, inspiring events and experiences. Early on in her training she was required to read Dr. Elisabeth Kübler-Ross' book, On Death and Dying. It was a seminal work especially for hospice providers as it described the various stages that most cancer victims go through: denial, anger, bargaining, depression, and finally, acceptance.

My wife insisted that I read it, as she wanted to be able to share and talk through some of the situations she was dealing with. During that same time, the oil markets collapsed. In a matter of months my once very prosperous bank became seriously impaired by the decline of the oil business.

As my career had became abruptly channeled into workout activities, I quickly began to see the similarities between cancer victims and my customers. The borrowers had been thrust, usually reluctantly and unwillingly, into a workout posture.

Some of my customers progressed through the various stages with great difficulty and others made the transitions fairly swiftly. Nearly everyone got to the acceptance phase sooner or later. However, my observation, then and again later in Oklahoma and New Mexico, was that those who reached the acceptance phase quickest were also the ones who tended to opt for the most aggressive treatment. They normally had much better financial outcomes in the long run. Losses were smaller and businesses frequently recovered. Indeed, they sometimes grew healthier than before.

Working out credit, from the banker's point of view, often means convincing the customer to do what he must do sooner than later. It saves asset values. Also, cooperation between borrower and lender is always easier when both parties understand the end game. I always told my defiant or reluctant customers that it would be easier if we did things my way:

"We're ultimately going to get there and

it will be easier for both of us if we do it that way starting now."

Look for the people factor

Perhaps we don't always recognize the human tendencies that are similar in personal life vs. business life. I can assure you that they are there, but sometimes under the surface and influenced by pride, shame, fear, and uncertainty.

As bankers who work out portfolios of credit or the occasional problem loan, we have to be alert to the commonalities of human experiences. It helps if we can put ourselves into the customer's frame of mind. And it improves the ultimate outcome for both the borrower and the bank. We are always learning and it's sometimes amazing how lessons from one venue are directly applicable to another. Skillful lenders appreciate those lessons and apply them to their work.

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.