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# WHY LENDERS ARE SALESFORCE—AND WHY THEY SHOULD ADMIT IT ALREADY

Ed O'Leary's case begins with three essential admissions

Every once in a while I run into a commercial lender who bristles at being referred to as a "salesman." That never ceases to surprise me.

Not all people who work for a bank are salesmen by their job description or function. The proof machine operator or the maintenance person is not.

But what about the president's secretary? Or the teller or the new accounts person?

It seems to me that there is-or should be-a significant component of "sales" in every customer contact position in a bank.

But what about the lender who does not consider himself or herself to be a sales person? I say to that person:

"Go find some other line of work, because you are occupying what is first and foremost a sales position."

What makes "lending" "sales"?

Let me explain why I feel this so strongly.

First, as a lender, your job is to expand the loan portfolio.

Although non-interest (fee) income has been growing in importance for most banks for over a generation, "spread income," which is net interest income, continues to be the most important source of net revenue for our industry.

It's likely to continue that way for the indefinite future, too. Lenders are the eyes and ears of the bank in the community for expanding loan business.

Banks organize in different ways to accomplish this, but distilled to its essence, a lender's charge is to lend money by persuading loan prospects to borrow from them. Our sales tools are convenience, service, loan terms, and projecting a sense of confidence to the customer that we can help them grow their businesses.

Second, it is our responsibility to represent the customers' interest within the bank in the context of the bank's approval

structure.

What loan officer worth his pay does not advocate for his customer in loan committee or with a fellow banker in a "lending ladder" context of credit authority?

Banks don't make every deal that gets offered to them. Rather, they make only the "best" deals in the sense of safety and soundness, profitability, and cross-selling opportunities. This means that the lender is the one responsible for making the case for the borrower and obtaining the business in an environment where lending resources are by their nature rationed to the most worthy recipients.

Third, our advancement within the bank as commercial lenders is either explicitly or implicitly based on our production of loan business.

Actually, loans are the principal avenue for gaining other business.

That's an old-fashioned concept that I learned years ago at The Bank of New York as a lending trainee and a junior lender. The industry got away from that understanding but it's coming back into vogue. The loan transaction is the principal means for the cross-sell: the gateway for deposits; fee generating services such as cash management; and many products and services not even offered by banks only a few short years ago.

The other side of lenders as salesforce

There's a trap here, though, for lenders and for lending managers. Incenting the wrong sorts of transactions is wrong headed, as well as ethically obtuse.

Incentive systems need to consider types of business. They need to assess the ultimate impact on the risk profile of the loan portfolio by emphasizing one sort of product over another. And they can't ignore the actual quality of the individual transaction.

A good credit policy is no better than the will and effort expended by the bank to observe it. I've heard many lending managers say in recent months that they really didn't understand how incentives were driving the credit risk profile of the bank in negative and harmful ways during the last business cycle. Taken to its extreme, this is a form of what is now widely referred to as "moral hazard."

A lesson from Sandia Lab

A number of years ago I was invited by the then ethics officer of Sandia National Laboratory in Albuquerque to observe, as a community member, the inner workings of the ethics process at the lab.

I sat through an interesting discussion on the results of an extensive weapons system evaluation process conducted on behalf of a very large weapons contractor to the Department of Defense.

The participants of the process I was observing were engineers working in a case study context on possible conflicts of

interest. The defense contractor was headquartered in a large Northeastern state where economic opportunities from an ongoing contract for the system would be significant. The Lab was asked to evaluate the technical feasibility of the system and the reliability of a prototype designed to demonstrate and showcase it. A significant portion of the Lab's mission is to provide impartial and objective evaluations of weapons hardware.

The committee was told that the evaluation team favorably concluded its review and that the questions the contractor had asked them to address were satisfactorily answered. The dilemma, though, was that some team members felt that not all the questions surrounding performance and evaluation had been raised by the contractor and were not being considered in the evaluation process.

While they could legitimately make a favorable recommendation on the system based on the questions asked, they were bothered about unknown answers to unasked questions.

What they were focusing on was the risk to the Lab's reputation for independence in its evaluation work of not raising what was also on their minds. The problem, of course, was that the congressional delegation from the home state of the contractor was vitally interested in a positive system review and the Lab, in turn, is a beneficiary of the congressional budgetary and appropriation process.

At that point, one of the engineers turned to me and said, "Of course you don't face issues like this in the banking business."

"Like hell I don't" was my response.

My reasoning-and the crux of lenders' challenge

I explained then that I have to sell my customers' deals to an often skeptical and very conservative loan committee.

How do I explain the risks, while on the one hand being positive and supportive of my customer, while at the same time being objective and balanced about the risk that the bank would undertake in funding a particular deal?

I could potentially over-communicate and run the risk of scaring the committee off. I could under-communicate and possibly not fully convey a sufficient understanding of the risk to the committee.

Lenders know that it's a fine line we all walk between overselling the deal and understating the risk. And that further assumes that we have done our own homework and have assessed the risk/reward relationship honestly and adequately in our own minds. This is the ethical balance that we deal with. If any of us don't understand that, then we are simply not being intellectually honest about what we do.

Come on, lenders, admit it

We sell for a living.

If we're not pitching the bank, the prospect is not buying.

If we're not pitching the prospect to the bank's loan committee, then the bank's not buying.

We have to be balanced and objective, and that's not always easy. We all know lenders who fell in love with a particular deal for the wrong reasons-incentive compensation, a faulty understanding of the risk, friendship for the borrower, or our natural tendency to say "yes" rather than deliver a disappointing "no."

This is why lending is hard work.

It is also why banks are conservative.

We have to be sure that what we present and ultimately fund are right for the customer and right for the bank. Our capital accounts are the buffers and banks are more highly leveraged than most other business enterprises.

Lenders are ultimately all salespeople-either in the product sense or in the intellectual realm of ideas such as risk and reward.

That's what makes the business so much fun.

My last boss at First Security used to say "If you want to have a good day, go call on a prospect. If you want to have a great day, convert the prospect into a customer."

That's the definition of job satisfaction to a salesman.

And that's what each of us is.

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).

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