

THE INVISIBLE COSTS OF SLACK LOAN DEMAND & 5 WAYS TO BEAT THEM

Nobody's borrowing? Don't squander precious time

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We are all hearing lately that there is no loan demand.

Parse this statement carefully.

Does it mean that there's no loan demand, period?

Or none that banks want to underwrite?

Either way, what should your bank's lending staff be doing in this period?

Nobody wants to be a pioneer

We know that real estate lending is virtually shut down at most community banks, as there are real estate concentrations on the balance sheets of these banks. And we know also that banks aren't picking many fights with examiners these days.

But I heard of a new lending "aversion" the other day and it goes by the name of "pioneering."

"Pioneering" in today's lending vocabulary means lending money on any activity or for any purpose that is new or different.

This means that if the collateral offered is anything short of marketable securities with a generous safety margin, the deal will be viewed as essentially unsecured.

It's undeniable that we as an industry have been badly frightened by the events of the last three years. But do we just furlough our people, reduce our operating hours, and live off the interest income of our investment portfolios?

Maybe we don't expand our lending staff at times like these, but I'm not hearing about layoffs of experienced people. Rather I hear that training budgets have been cut, entertainment of customers or new business prospects is severely curtailed, and geographic expansion initiatives have been shelved for an indefinite period.

Why is much of our industry in a survival mode when the number of truly problem banks is a relatively small proportion of the total?

Cautious to a fault

I think that we are being short-sighted to the point of folly and we are looking at our world through the wrong end of the telescope. Here are five things that I'd do during this period of uncertain loan demand to build the bank for the future:

1. Expand the training budget. Use today as an opportunity to invest lender time and resources in functional training. This can include off-site classes of a management development nature; on-site training of credit specifics; and team building projects that enhance the cohesion and effectiveness of everyone, line and support staff alike.

If lenders don't have the time to sharpen their skill sets now, when will the opportunity likely re-present itself?

2. Get the lenders out calling actively. Start with your existing customers. Customers are flattered when a banker calls and welcome the opportunity to show off the factory floor or the latest product line.

We don't learn very much sitting at our desks, anyway.

3. Expand community service projects. Several years ago I found myself CEO of a bank that was not a lot smaller at that time than Wells Fargo in Albuquerque and Santa Fe. But we had a much smaller contributions budget due to parochial concerns of our head office 500 miles away.

So, instead of competing with the contributions budget, we fielded our staff for community service. We worked committees, drives, charities, civic clubs-even political activity, by encouraging our people to run for local office.

In the end, our banking public, customers and prospects, appreciated our shirt-sleeves approach and suddenly the contributions budget wasn't an issue.

4. Do some housecleaning on the credit files. Stuff accumulates-and sometimes the right stuff doesn't accumulate-and now could be a good time to prune the volume of dated and less useful material and see what's missing.

One summer many years ago as a trainee at The Bank of New York, the credit department's routine was slow for a few months so we had big work parties on old credit files.

I recall reading some wonderful old correspondence including a reference/recommendation letter for one of FDR's children. The young man had applied for a charge account at Abercrombie and Fitch, as I recall, and the then head of the credit department wrote a letter, presumably with a straight face, that concluded, ". . . [A]s you may know, the young Mr. Roosevelt is the son of the President of the United States."

Those were simpler times, I guess.

5. Create useful and productive projects for younger lenders. Slack times can generate "opportunities" for younger people-particularly if not very well supervised-to develop some sloppy and perhaps lazy work habits.

The best way to keep up morale is with useful work.

Who wouldn't rather be busy than idle? If you don't fully trust the answer to that question, maybe you've got the wrong sort of people on your staff.

Now is the right time-as in "now"

One of my best bosses ever was when I was fresh out of the credit training program at The Bank of New York. He was a store of wisdom, functional competence, and enthusiasm in the best mix of those qualities I've ever worked around. One of his favorite sayings was "The worst time to do anything is always now."

Is right now a good time to introduce some extra or new training?

Probably, someone will say that the bank can't afford it. "Next year would be better."

Should we insist that our people be out of the bank calling on customers and prospects?

"No, this is not a good time as we really aren't making many loans these days" may be a likely response. "We'd only create a credibility problem with our banking public."

The objections go on and can become quite imaginative.

Imagination and survival

It's imagination that's needed most today.

Survival skills in a credit environment will mean one of two things:

1. We are digging out from under a mound of bad credit where creativity and hustle are essential ingredients to a successful outcome, or

2. We must strive to maintain our edge and skill sets while being somewhat underemployed as commercial lenders.

I think that latter circumstance is deadlier to the spirit of lenders than the former, especially to those younger members of the staff who have not yet had the opportunities to fully develop their talents.

There's also the opportunity for increased mentoring opportunities.

Just think of the difference in asking directions in a strange town.

Explanations of how to traverse so many blocks and then turn right at the Baptist church and go to the third traffic light and so forth is one reality that we have all experienced.

But what if a more experienced person says to a less experienced one:

"Come, let me show you."

Tell us what's going on in your bank these days. How's loan demand? Has your bank tried any of the steps Ed recommends? Or have you tried something else that's been helpful?

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 has been 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.

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