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## CAN A BANKER HAVE A BUSINESS FRIEND?

Sometimes, you have to draw a line

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The other day I came across an old newspaper interview of one of my former customers. I had handled a large participation for my bank in Oklahoma City of which George, my customer, was the primary obligor.

George was the patriarch of a large family that owned and operated a cattle-feeding operation, and a farm that supported the cattle business, consisting of over ten sections. The business was not only vertically integrated but it was supported by a large commodity hedging operation. So it was big business, any way one looked at it.

In the article, George was remembering the dark days of the 1980s when the cyclical nature of both cattle feeding and farming conspired to produce a couple of very difficult years.

"I told my bankers that I was broke," said George in the interview. His local banker responded, "We figured that out. Since we didn't know what to do about it, we didn't say anything."

I'd never heard that story. But it sounded like vintage George. And it was quite true at the time that George was my customer. He was broke.

Sometimes not saying anything is the best thing to say

To me this story was a classic example of "benign neglect."

George was honest, and a good businessman. It was hardly his fault that cattle prices were depressed. The bank had no real option but to work with George and had the good sense and grace to do so willingly and cooperatively. So the bank left George alone to work out his problems, which he was ultimately able to do.

Along the way my bank separately sustained a significant loss with George due to the shrinkage of our collateral values. But there was ultimately a happy ending when we were repaid in full--including interest.

To me there are two enduring lessons in this story.

One is the occasional value of benign neglect. Should George's local bank or my own have shut George down and created a harsh ripple effect throughout the other bank's local trade area in central Kansas? What could we have done better than George?

The other is the value of friendships and mutual trust that often flourish under such harsh market conditions.

George's financial situation with my bank was a train wreck.

A former partner had cheated him and ruined an aspect of George's cattle business. Yet as I observed George over the span of more than two years, he earned my respect and my enduring friendship.

A personal gesture that made a customer a friend

One of my sons, then 16, had suffered significant heart damage following a surgeon's error in what should have been a straightforward and simple open-heart operation to fix a genetic deficiency. About two months after the surgery and its unfortunate outcome, George called me up and invited our family up for the rodeo and a weekend of horseback riding. My son was in a post-surgical depression, a real funk, and so the idea of getting away and being outside doing something physical but supervised and tailored to his capacity was appealing.

That weekend was the turning point in my son's physical recovery. He needed a change of scenery, a few hours each day out of doors, and a chance to begin the physical job of healing.

How did George know that this was what my son and our family needed? His office manager had a teenage daughter who had received a heart transplant a couple of years before. Firsthand, George had observed and intuitively understood as a father of seven children what was needed.

George was hardly typical of my friends. He was several years older than I and wore a ten-gallon hat and cowboy boots and spoke with a Kansas twang. I held the conviction that one should never make a customer of a friend, but turning a customer into a friend was different and should not necessarily be discouraged. That happened from time to time as I always tried to be professional in my work and considerate of the customer and his unique predicament in any way that I appropriately could be.

I didn't have any "good" customers in the conventional way that term is used, in those days. Back in that period all of my customers were my bank's "special assets," due to the farming-cattle-oil field-real estate market depression of the late 1980s.

I found in George someone I could trust and my ultimate realization was that he viewed me the same way. It didn't start out that way and it didn't have to turn out happily as not all of my stories of those days did. That made our relationship solid and useful in the business sense. But it also made it fun and ultimately productive for both him and my bank. And George is one of the most enduring examples that I have of the first "C" of credit--Character.

On the other hand, there was Henry...

One time I didn't follow my own rule. I tried to make a customer from a friend.

I loaned \$15,000 to Henry, my down-the-street neighbor in Orlando, to finance a small construction job he had taken on. Our wives were good friends and we had kids the same age that went to school together.

I did no due diligence on Henry. After all, I'd known him for a couple of years and he seemed successful and competent.

Later I learned that he was neither reliable nor honest. We had to collect on Henry in a messy and confrontational way.

The rule: Never make a customer of a friend.

Friendship alone is rarely a sufficient foundation for a business relationship.

Where should you draw the line?

Eventually I developed the practice to deliberately avoid building my social life around my coworkers at the bank.

I had many friends among my colleagues. But they were not intimates, not drinking buddies, nor were they nor their wives intertwined with us socially. Instead my friends were found at church, among the parents of our four children's friends, and as the result of my wife's ability to make friends quickly and easily.

As I observe younger bankers today, I see a great deal of fraternizing in ways that can be problematic. One colleague and I lived in the same neighborhood and we car pooled together most days, but we were not social intimates. I was glad for that in later years, as I watched this handsome, gregarious young lender become estranged from his wife and was silently grateful that our business friendship was not complicated by his marital infidelities. It could have easily been otherwise.

So my advice to younger lenders is to make your customers your friends but don't set your sights on becoming socially involved.

If that happens, fine, but make sure that it's the process of making customers into friends and not a by-product of seeking equality and familiarity for purely social reasons.

Lending is a wonderful business. We deal with customers on a fundamental and personal level and we help them build their net worths and financial foundations. But business has its own form of social contracts and a certain detachment is useful and healthy for these relationships.

It's hard to do what bankers sometimes have to do if your relationship is complicated by friendship and family.

Do you agree? Tell us in the comment section below about your own experiences with business, business friendships,

and friendships that turned, or might have turned, into business.

#### 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.

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