

THE LENDER'S EYE: THE DOCTOR WHO FELL IN LOVE WITH THE WRONG DEAL

First of a series on rethinking lending to borrowers with stethoscopes

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Editor's Note: The medical business is changing in big ways and small. Ed O'Leary's taking a look at several implications for bankers.

When you've finished reading this first installment, there are two followup blogs you shouldn't miss. See the end of this blog for links.

--Steve Cocheo, executive editor

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Actually, there's nothing wrong with lending to doctors--or dentists, for that matter. They do tend to need some special handling, however, and here's what occurs to me from my dealing over the years with medical professionals.

First, doctors can be the closest thing to self-proclaimed infallibility that one can find.

They may not know a whole lot about our business (and that's OK with me). But they seem to think that they know a great deal more about business than most do. Ignorance often takes its most virulent form in how doctors fail to adequately consider the degree of risk associated with the ventures they would like our help in financing.

Doctor took a bath in car washes

I have a vivid recollection of a doctor friend and customer in Orlando some years back who decided he needed to have the latest franchised car wash facility on the city's north side. It took, as I recall, about \$300,000 in those days for the improvements and the equipment and a long-term real estate lease obligation for a location.

The doctor was prosperous and had a successful practice. I just didn't feel that any of us--himself primarily--knew enough about this particular franchise opportunity or about the car wash business itself.

The doctor had no plans to personally run the car wash. And his wife showed no interest in taking any active part.

I kept wondering: "Doesn't he have something better to do than keep a low-tech business of that sort operating properly on a day-to-day basis?"

But the doctor just wore us down with his request. We felt we really couldn't say no, based on his financial condition and value as a customer. While he couldn't exactly write a check for the proposed credit facility if it went bad, he certainly could service it over a few years' time or find a buyer and absorb any loss.

So, we did the deal and a few months later the car wash opened.

The early results were a disappointment, but the doctor wasn't about to admit his difficulties to his banker. He put on his game face, and, over time, made the best of a progressively miserable situation.

I had anticipated that the hourly wage workforce would be a major issue, and it was. However, the bigger problem turned out to be competition in those days from the free car washes that were available at several upscale branded gasoline stations.

A reality check for lending to professionals?

So often, the problem is in the risk analysis during the due diligence phase of credit underwriting of a prosaic sort of business. Think of it as the stuff that you just didn't think about. Hourly wage employees don't seem like a huge issue, to an outsider. But if half of them don't show up for work on a busy Saturday morning, it's a big deal. How long would most of us think about the demand for car washes before it occurred to us that the free washes were the real competition?

The major issue in such cases: How do you say "no" to a doctor who has no rational basis for taking on the aggravation of such a business?

Can we restrain the doctors or similarly situated professionals from their own enthusiasm and keep them out of time drains, hassles, and unnecessary risks and focused on what they do well and what they are really trained to do?

How many of us have heard a customer say, "It's the deals I've not done that have been the lucky ones for me, not necessarily the ones I did."

Not all deals should be done. And not all deals are temperamentally suited to each of our entrepreneurial customers.

Standing your ground

If you're a young lender reading this, say with three or four years' experience and not yet out of your 20s, how do you credibly deliver a "no" to a doctor who is old enough to be your father? Someone who has a net worth that you probably can never hope to attain as a commercial lender?

It's a very tall order. Maybe you won't be successful, in the end. The doctor can easily go over your head and probably get the deal done. Does that mean that you should put your doubts aside and just "roll over" and accommodate the customer because of his age and financial capacity?

In my brief example with the Orlando car-wash doctor, to his very considerable credit, he told me years later that he should have listened to me and not done the deal-for reasons I had mentioned and a few more that made themselves evident along the way.

At least I had the ultimate satisfaction of knowing that I gave him the right advice at the time. He was under no obligation to take it, and he didn't. But at least he was listening.

Saying "no"-sometimes even when we like "yes" ourselves

If we have serious doubts about a deal, then we should turn it down.

- In those situations where the borrower has insufficient capacity to be considered creditworthy apart from the basics of the deal request itself, the answer is self-evident and comes as the inevitable conclusion.

- Where that's not the case is where we can add value to the borrower and give him our candid opinion. Such straight dealing keeps the customer from something that is a seeming loser for any number of reasons.

If I seem to be picking on doctors, rest assured that that's not my purpose. It's just that they make convenient examples of those who occasionally need to be rescued from their own business enthusiasm.

Here's where we have to be sufficiently introspective ourselves to realize that as lenders and credit underwriters, we have blind spots too.

Sometimes our judgments are not infallible. But who keeps us from getting our banks and by extension our customers in trouble?

This is where a healthy sense of realism, and occasional self-doubt, is very useful to our experience as lenders and works to the ultimate benefit of our customers.

Sometimes our "best" deals are those we have enough sense not to do.

Part 2: This borrower was a "classical" doctor borrower, in a sense. But aspects of the medical profession are undergoing major shifts. I'll be looking at some ways that may change how bankers look at doctors, traditionally the "cream" of the local credit market.

Part 3: As the medical business evolves, will practitioners status as prime accounts fade? And could doctors and dentists become a credit concentration?

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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