

## HOW LENDERS HANDLING WORKOUTS CAN COME OUT OF THE VALLEY OF THE SHADOW OF BAD CREDIT

Take the work seriously, but not grimly, and don't take yourself too seriously

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People who know that I spent nearly ten years in the workout trenches in three different banks sometimes ask me how I did it for so long without losing my sense of humor or perspective. This is a good question and its outcome for me or anyone depends on a combination of organizational issues, individual experience, and maturity.

Put yourself in perspective and perspective in your self

I've seen competent people fall flat on their faces with their self-absorption in the workout business.

Let's remember something, from the outset: Workout officers are conduits of information, strategies, and advice-agents of the bank who derive their authority from the directors and stockholders whom they serve.

We are always about someone else's business and we have to remember that our jobs are not about "us."

That sort of detachment minimizes the personalization of the occasional confrontation and unpleasantness and helps keep us in an emotionally healthy zone in what is often very stressful work.

### Get a thicker skin and a better attitude

Anyone in a workout position of responsibility should realize that over time, one becomes inured to certain types of behaviors.

Borrowers are often defensive. Often they become somewhat secretive. And occasionally they exhibit hostility toward the bank. It's part of the job and you should not take it personally.

On the other hand, an overt lack of cooperation by a delinquent borrower is not the sort of behavior that can be tolerated. Just expect it from time to time and deal with those occasions firmly and quickly and set (and reset) the ground rules as often as is necessary.

But if you are inherently averse to conflict, then maybe you're not the best fit for a special assets job.

### Be careful what sticks to you, and when

Confrontational and occasionally adversarial customer relationships can cause some lenders, especially younger ones, to acquire some lingering habits that could hinder business development in the future.

There's an old saying that bankers who view themselves as hammers will treat their customers like nails.

The question is: How do you switch between modes of behavior--collections or business development--and not make some missteps?

It's important to understand in this context that this is one of the primary reasons that many banks separate the problem assets from the good assets--a less formal variant of the good bank vs. bad bank. It's awfully hard to be collecting a soured loan in the morning and soliciting a high end borrowing prospect in the afternoon.

You can quite literally forget what color hat you are wearing.

The board could be your new best friend

One thing that I found very important was the way in which we communicated with directors.

A pile of problem assets in a portfolio usually means an administrative agreement with the supervisory agencies. One common feature of any of these supervisory tools is regular and detailed reporting to the board or a board committee. Usually, these reports include an explicit workout plan, credit by credit. The better you can articulate your plans to the board, the better the examiners like it, as the examiners' primary influence at this point is with the board, not with you or your lending/workout colleagues.

Early on board involvement may seem an unwanted intrusion. Ultimately board involvement is very valuable.

It's the way the board puts its stamp on the cleanup efforts and it can be used by any workout person to his or her considerable advantage.

For example, sometimes executive managements will starve a staff of certain needed resources on the basis that "we can't afford it." An engaged board can usually cut through this logjam and get you what you need. But to get to that point, board members need to be sure that resources will be properly deployed and have confidence in your plans.

That's where the monthly or quarterly reporting routines become so important. Any of you who have written a grant application on behalf of a non-profit recipient will see how alike the two processes can be. Language, style, and content become more important in this process than you might have imagined, before the current slump in economic activity.

During my various tours in the trenches, I experienced different degrees of responsiveness of management to my needs and those of my colleagues. It was never for the reason that executive management or the directorate refused to support us. Sometimes they just didn't fully understand the problems. This was particularly true in the oil field in the early 1980s when problems arose with alarming speed and severity. That's why organizational responses--committees, authorities,

practices--needed constant review and frequent adjustment.

In Oklahoma City, we ultimately separated all criticized credit from all uncriticized credit. There was even one committee for each and we didn't confuse the agenda. This led to a much more efficient rationing and allocation of time and effort and was in hind sight probably the most significant organizational response we made over a period of three years or so.

You've got to be alert to these situations and as quickly as you can eliminate log jams and convert them into opportunities.

Speed: What you need

Speedy execution is critical in all phases of workout administration. A thoughtful, deliberate approach to underwriting credit in good times is one thing. But you probably don't have the same amount of time in a problem environment. You and your colleagues-bosses to clerks-have got to respond quickly and crisply.

You might make an occasional mistake but problem asset deterioration waits for no one. A problem asset gets better or worse every day. Nothing is static very long in that sort of environment.

Don't forget to pay attention to morale

Problem asset administration is serious business, to be sure, but there's nothing in the rule book that says that your "game face" has to be a sour puss.

During the most difficult days in both Midland and Oklahoma City, I recall how focused we had to be on our work. With that sort of focus comes a rising probability of success in dealing with the issues. It's a sort of "make your own luck" and I can assure you that it's absolutely true.

I had two wonderful bosses at different times in my Oklahoma City days who paid attention to my morale. It was with their encouragement that I found a better balance between home and work. I became a daily runner and went out every morning, six days a week for a five-mile run. When the weather was really lousy (too hot or too cold) I was a regular swimmer at the Y two blocks from the bank.

At times I wondered whether the bank would make it and if it didn't, would I or could I land on my feet?

The bank in Midland didn't make it but that was an experience that was extremely valuable to me for the rest of my working days. I gained invaluable experience and confidence I could not have acquired in any other way. Those of you caught in what must sometimes seem like endless days of tedium, conflict, and occasional gloom need to remind yourselves that this is a formative period in your careers.

You'll be better off in the long run than you can ever imagine today.

Laugh--really laugh--even at yourself

One final bit of advice is to have a sense of humor.

We laughed a lot and maybe some of it was superficial and almost silly at times. But it was a great icebreaker.

Remember to laugh, work hard, and don't take yourself too seriously.

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

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