

5 WAYS TO GET BACK ON THE BUSINESS TRAIN

Business will get better. Don't miss the turn!

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In 2007 many lenders didn't see the recession coming, so it's not surprising that many are not yet seeing the recovery in the credit cycle that is slowly beginning to emerge from the numbers and the accumulation of anecdotal evidence. One important metric of the change that's already underway: The list of problem banks is shrinking.

Many banks that have been in virtually complete workout mode the last 24 to 36 months have largely cleaned up their portfolios, with the remainder of the job left to be accomplished by an improving business environment. This the "a rising tide lifts all ships" phenomenon and now, it's a matter of time and patience for the healing to be accomplished.

So what's next?

This means that in the coming months, many banks will be able to reorient their focus from a defensive, reactive posture to one of growth and market expansion.

This is, in other words, an inflection point for the community banking industry.

To put it plainly, it's going to be a breath of fresh air. But what comes now?

How banks respond will produce a realignment of community banks' relative competitive advantage versus each other. These opportunities are not very common, so we need to pay attention.

Here's a five-point program for banks to be on the leading edge of this change and to maximize competitive opportunities.

1. Perform a rigorous assessment of the banks in your trade area.

The current business cycle has made significant changes in the landscape. Some banks are stronger. Some have been damaged. Others have disappeared. You now have more competitors or fewer and they are either better or worse for the experience. You need to know and figure out where you've gained some ground and where you've slipped.

This is not the same market place as it existed four years ago.

2. Create the mental environment of abundance among your staff members.

Develop the attitude that you and your colleagues have the resources that your business community needs. You can and will deliver "the goods" and the community and your bank will prosper for it.

This may require some significant attitude changes among staff members and directors but if the prevailing attitude is one of "down at the heels" then you'll never climb out of the funk we have been in for a long while.

3. Create a series of achievable short term goals.

If you have, for example, a commercial loan portfolio of \$250 million, why not set a target of generating net new outstandings of 2% of this amount by the end of the first quarter of next year?

Allow some latitude for rate concessions and perhaps some elasticity of loan policy terms where credit integrity isn't compromised. Maybe a quarter point in rate and a concession in the maximum allowable maturity (say, 72 or 84 months, rather than a limit of 60 months).

Create customer calling goals, too, and permit the staff to have some fun in the process. Treat the winners to lunch or provide some token opportunities to put aside the long faces we've all worn for so long.

4. Create a "most wanted list" and figure out what it's going to take to land some business that you've wanted to bring in for a long time.

You don't know what stresses or strains there have been in a target's banking relationship in the recent past. Maybe there's a real opportunity just waiting to be asked to make a change.

This is a due diligence process and it should be both comprehensive and intensive.

Prepare for these calls with great care--and involve your directors too.

5. Organize to maximize loan recoveries.

As the economy improves, businesses create opportunities by being careless or less vigilant permitting creditors to levy bank accounts and take other collection activities that in the very recent past would not have been productive.

As time passes and conditions slowly improve, former customers become lax while banks become less proactive in pursuing recoveries. It's worth the time and efforts of collections staffs to go into a more aggressive posture and in fact, bolstering the capacity of your collection capability might easily pay for itself several times over.

Have you considered outsourcing collections of specific debts that might find some results while not incurring any incremental costs of a non-interest nature?

Get out off the funk now!

We have been reactive for a long while. It's time for some successes and you'll be surprised at the beneficial impact this will have on most of your bank's constituencies.

As the local economy improves (the Conditions in the Five Cs of Credit) all banks have the same opportunities to improve their loan business.

But those who act quickly, decisively, and consistently will be the big winners. The business community notices these things too and nothing succeeds like success, especially when there's not been very much of that in a while.

Window of opportunity won't stay open forever

The stakes today are actually much bigger than just a relatively small bump in loan outstandings.

What's really in the balance is the process of differentiating the strategic survivors from the strategic failures. Failures in the next few years will be failures of will, attitude, and timing.

There's not a big enough potential market for every community bank to survive as an independent entity. What you do this quarter and most of next year in regenerating your competitive initiative will set the parameters of your success for the next decade and beyond.

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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