
LET'S CHART A COURSE FORWARD

Part 5: Sometimes our rhetoric gets stuck in the past

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Community banking faces an issue of inertia.

Many think inertia means sitting still, not moving. But it also means a constant state, like going along in the same straight line, barring a collision.

Maybe we need a collision with some fresh ideas.

Bankers do what we do because we're hired to do it, the owners want it, the customers start coming in at 0900, and so forth. But what we place at risk in such a mental environment is the energy to adapt to the changes that impact us. If it's 0900 and time to open the doors, it's rare that we are introspective enough to examine the why of that and all that follows. These days, we are too darn busy!

You'd think with all the competition we face that we'd get better at asking the questions. That's the key--asking the good questions. Smart people will come up with answers but the better the questions, the smarter the answers will inevitably be.

Careful how much you pat yourself on the back

Consider for a moment how we talk about the future of community banking, when we speak among ourselves.

We are bankers talking to each and expressing our opinions of how we think the world should be configured. Is our value proposition determined by us? Or by our customers?

Think about how comfortable we are in describing our world in our terms, so comfortable in fact that perhaps we can't imagine any other way to describe what we do. We congratulate ourselves on our "great service" and how we serve the community. (I know-I was a community banker for a good number of years.)

But what I can't quite figure out in this welter of words is what do we mean by "service"? Whose definition is the operative one? Ours or our customers'? To parse the term "service" both fully and accurately, we need to understand what the outcomes of service can mean to those who receive it.

It's their definition that counts, not our own.

Dissecting the meaning of service

The tasks are the same for all players. Here's what I mean:

Virtually anything one bank can do can be done by another. We can all cash and clear checks, make change, maintain accounts, loan money, offer safe deposit boxes, and perhaps dozens if not hundreds of other things. Since this is a column on credit, we should focus our discussions on how we serve the customer in our money lending function.

There seem to me to be four outcomes of the service we provide that are truly differentiating:

1. Does the customer obtain the credit his business needs?
2. Are the terms reasonable and appropriate given the level of credit risk and the competitive environment?
3. Are there any intangible qualities to what we do, such as advice, counsel, or information that creates value to the customer? (Importantly, receiving a loan as opposed to receiving a loan from one of our competitors?)
4. Are we conscious of our responsibilities to our community? And if we quickly answer yes, can we cogently list what these responsibilities are?

These latter two points are the ones that ultimately provide the customers' reasons for banking with us. Anything else is just noise and doesn't contribute to an understanding of how community banks differentiate themselves from the very large competitive ones in terms of how customers perceive us.

Three competitive questions you must ask

1. Can the megabanks consistently lend at rates cheaper than a community bank?

They probably can—from an industry point of view, their cost of funds is less than community banks'.

2. Can the megabanks manage portfolio risk better than community banks?

Probably, owing to their greater geographic dispersion, broader and deeper product offerings, and more natural opportunities for product and customer diversity.

3. Can the megabanks do things of scale and size that community banks can't do?

Yes, and they are very quick to point that out to our customers, whom they are constantly trying to poach.

So where are community banks in defining strategic reasons that truly make a difference to the borrowing customer? We

must be able to this question, or there's not much of a future for a community bank.

Personal exchange of information: the differentiation point

The credit extension process at the larger banks is increasingly a retail product, in terms of access and delivery. This makes sense in one way but it also tends to depersonalize the entire credit process.

Credit savvy people do not necessarily populate retail branch platforms. And credit decisions made by non-customer-contact people at facilities remote from the borrower's place of business or local market place are simply less discerning in terms of understanding a borrower's business or character.

What makes the defining difference to our customers is much more likely to be the information that is exchanged between borrower and lender. The conversations are hardly one way, either.

- • The customer benefits from what the banker knows of the market place and the experience that he or she has had with a variety of loans and situations.

- • The lender benefits from the direct information from the borrower that can be assembled into "competitive intelligence."

We don't hear about this in our banker-to-banker conversations. Are we overlooking something? I suspect that we are.

We need to make our case to the borrower in terms of the value added in dealing with us-as defined by the customer. Our view is largely irrelevant if we fail to understand and fully appreciate why the customer can benefit from what we bring to the transaction. Until we do that, we are talking to the wrong people and in fact ignoring a major constituency.

How we might reframe these conversations will be the subject of future columns.

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 e-mail him at etoleary@att.net. O'Leary's website can be found at www.etoleary.com.

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