WANT TO BE MAKING LOANS IN FIVE YEARS? CHEW THIS OVER NOW

Three questions and seven ideas to ponder for your future

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"If I can't beat a credit union for service and value added, I don't belong in business."

This is a quote from an independent banker I came to "know" recently.

Indeed, he was one of the six "young bankers" that ABA BJ interviewed in a podcast and an article earlier this year. Prior to publication, Executive Editor Steve Cocheo shared with me the unedited recording that the podcast was based on to get my perspective on some of the ideas that these bankers raised.

Like his colleagues in the ABA BJ roundtable, this banker has many ideas on how his bank should compete both with the giants and the other banks and depositories that are slugging it out for the small- to medium-sized commercial loan business today. I commend to you the article as well as the podcast.

What follows are some insights I prompted as I thought over the bankers' discussion, and as I mulled the broader subject of the competitive challenge.

1. Stop thinking like a traditional banker.

The familiar organizational model of commercial lending is being upended as banks, especially the larger ones, move to a retail-style delivery model for commercial lending. This ultimately cuts off most borrowers from a direct and ongoing relationship with a commercial lender.

Do you suppose that the borrower is the poorer for this in the long run?

In this Brave New World of branch delivery of service, what is the ultimate value proposition?

Sure, there are some compelling advantages to this business model but they all seem to accrue to the bank. What about the customer? What about the community?

2. Ask yourself what the key performance drivers of banks are likely to be in the coming years.

Will it be enough to simply have a "clean" note case? Or is there more to sustainable earnings performance than what's contained in the language of your credit policy?

As our industry constantly grapples with issues of scale ("more is better" sort of logic), will that predetermine who survives?

The disturbing answer is that it probably will to a significant degree. But scale alone will not be sufficient.

There's still a need for underwriting that considers the needs, including both peculiar risks and opportunities of the local market.

As the Marines say, "This takes boots on the ground."

A bank can lend successfully over long distances but how many opportunities will be overlooked? How many "no's" have to be accumulated to otherwise valid business credit requests before anyone wakes up to this fact?

In the regulators' collective enthusiasm for investigating fair-lending concerns, do you suppose it will occur to any of them to think about how emerging structures work to the detriment of the local community?

Where is CRA when bankers need it?

3. How can bankers represent best practices ideas from business and start behaving according to them?

Some of this demands acting on the way we've felt about some things that have been going on:

Idea one: We need to realize that we're not public utilities and that no one has a "right" to a banking relationship.

Relationships have got to be good deals in a reciprocal sense--good value for both parties and evaluated on a continuum of years, not weeks. We have to understand which customers are profitable and why.

I know too many bankers, from small- to medium-sized institutions, who have no real sense on this point at all. We must make it a habit to ask: If a customer is not profitable, how can that be modified?

If it can be, get after it; if it can't be, move that account down the street to the credit union. The "best service" has got to be earned from a value proposition and that means the relationship must have immediate or clear long-term value to the bank.

Note that the best practice here is to know who is profitable and who is not. Knowing that probably is the first step to a long-term fix.

Idea two: Thank your most profitable customers on a regular basis. Nothing cools a relationship more quickly or totally than indifference.

Idea three: It's easier--and also a lot cheaper--to retain a customer than go find a new one. But the retention is not the total objective. (Remember the credit union point in Idea #1.) It's a key part of it though.

Idea four: Don't make seat of the pants assumptions on customer profitability. You'll often be wrong.

Let information drive your conclusions and be consistent in the application of the data. It may produce an occasional false positive but long-term, consistent application of the methodology will yield good results.

Idea five: The customer is not always right. How often do we as managers tolerate offensive and noxious behaviors by customers in order to save an account?

Sure, I sometimes did that too. But I quit that, as soon as I sensed that staff members had received personal abuse, heaped on them by rude and obnoxious customers.

The attitude ought to be: "Civility is still prized in polite society. If my customers won't behave civilly, they will very soon cease to be my customers."

Your fellow staffers will appreciate this more than you can understand.

Idea six: You can actually change workplace behaviors. But to do so, you'll have to continuously communicate your expectations.

We make too many assumptions about what values motivate personal behaviors of employees. Quit making assumptions and start teaching what you expect.

It's not enough to simply model your expectations. You've got to both lay them out in words and by personal example.

People don't necessarily intend to act like jerks and boors but they don't always perceive that their behaviors are in fact boorish. Entry-level workers, especially those new to the workplace, need to be reminded that you expect them to come to work every day and to show up on time. It's amazing that many seem not to have learned that by early adulthood but it's another one of those assumptions we can't really afford to continue making.

Idea seven: There's more to long-term success than increasing shareholder value, as important as that is.

Maximizing ROE may actually penalize and starve other key business constituents of the resources that the enterprise needs in the proper propositions for long-term success. In this world of competitive needs we are in a perpetual state of creative tension and constant compromise. Long-term obsolescence of our business model is nothing that increases shareholder value.

Why you have to act on this now

Commercial banking is one of the key components in a modern economic society and commercial lending is one of its bed rock functions. Our industry's business is under siege from a changing world of regulation and technology, probably more than anything else.

The key ingredients to ultimate success are not likely unknown or unfamiliar to us right now. How we apply them and in what proportions will very likely determine our future success and prosperity.

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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