

O'LEARY'S GALLERY: THE FUNDAMENTAL FLAW IN THE BANK CREDIT EDUCATION PROCESS

Too often, banks assume lenders learned essentials somewhere else

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There's a major weakness in how lenders at larger community banks have been "grown" and it's as plain as can be. Let's see if anyone agrees with me and whether anyone thinks that this may be troublesome. I'd also like to hear from you about where the thoughts expressed on the following "rogue's gallery"--composites based on the many bankers I have known through the years--should take our thinking.

In a long career I've had a variety of experiences and seen things done in a lot of different ways. I don't think there's necessarily a right or a wrong way to prepare lenders for their work. But some approaches and environments certainly produce better and more consistent results than others.

Have you met these folks? Introducing some typical lenders

Here are sketches of several lenders I've worked with, along with my summary assessments. They are all based on real people with tangible strengths and shortcomings and any of you would not be embarrassed to have them as working colleagues. In one way or another, I had a close and personal view of how each of these bankers operated.

• Phil N., age 42, homegrown lender with the bank for over 20 years.

Graduate of the major state university. Ernest, hard working--but lacking in imagination. He'd never get the bank into trouble but he couldn't likely get it out of the ditch either. Credit skills were average in terms of generating and managing a portfolio.

• Rick H., age 36. Hired by the bank a year before to augment work out efforts.

Graduate of an elite private college, with an MBA from a prestigious state university. All previous experience was at Westinghouse Credit. Among the best credit men I've ever met. First-class mind and skilled, tough negotiator due to extensive experience in commercial finance-type of credit. A bit rough around the edges and definitely not part of the country club set. But you would entrust him with the combination to the vault.

• Peter G., age 50. Hired by the bank three years before out of an oil field background to work with oil field service credit.

Degrees from major public university and all coursework completed for doctorate in petroleum engineering. Smart as a whip--but personally undisciplined at times. Worked hard, but not always smart. A bit of a loner, though very outgoing and personable when on the job. Customers loved him or hated him--no "average."

• Clayton K., age 34. Homegrown, ten years with the bank, hired right out of largest public university in the state.

Hard worker but not always focused on the urgent credit issues. Good with customers and a reliable business developer. Tended to see the world as he wished it to be, rather than the way it sometimes was.

• Bill W., age 39. Hired from a large out of state bank about two years before to bring more experience and maturity to the lending staff.

Pretty boy, immaculately groomed--and if he ventured out in a tornado, he had enough hairspray to keep every hair in place. Seemed to be a knowledgeable credit person but hard to be sure. Superficial?

• Fred M., age 52. Academic type by background (three degrees including PhD) who a dozen years before got an MBA to be able to work in finance.

Hired by the bank the year before to work on collateral-dependent credits. One of the smartest people on staff. Good writer, good negotiator, good mentor with younger staff members. Popular and trusted by seniors and subordinates alike.

• Jon P., age 35. Bachelor's degree from major state university.

Hired seven years before, after one or two years at a competitor bank. Recently promoted to manager of a lending group. Technically strong, but seemed very political. Hard worker, volunteered for projects. Reminded me of Shakespeare's quote, "Yon Cassius has a lean and hungry look."

• Louis T., age 55. A 30-year employee of the bank handling upper-end customers in a personal banking way.

Lou never saw a deal he didn't like, or a fee that couldn't be waived. Every bank has someone like him--and needs one. He was the conscience of all of us who had to enforce the fee schedule.

• Joel G., age 34. Hired out of Citibank a year before to fill a growing need for talent on the lending line.

Joel was one of the best-trained bankers I ever worked around. He knew skills that our guys hadn't been trained in. He was way ahead of his "country bank peers." He was a "tom cat" and had a reputation for that behavior among the lending staff. He seemed to be an outlier in the personal decorum sense and while that didn't hurt with the customers (who had no reason to be aware of it) it did set him apart from many of his peers.

• Rachel T., age 40-ish. Hired right out of school by the bank 16 or 17 years before.

Rachel represented the bank in a portion of the bank's portfolio where women throughout the industry were relatively rare, in those days. I enjoyed her spunk and her enthusiasm, though she was a "cultural misfit" in terms of how her customers, including some in the oil field, related to her. She was a very competent lender and deserving of the respect of her peers. I'm not sure that her assignment and customer base was the best fit for her skill sets and her gender. (And yes, I understand just how dated these comments sound today.)

• Eric R., age 25. Hired from a large out-of-state bank to supplement the lending staff two years after graduating from an Ivy League college.

Eric was a smart and attractive young fellow. He came from an upper-class background that projected a sense of "superiority." His credit skills were sound, but at times they seemed unstructured. He began with an "upper crust" view of life, though he ultimately figured out how to relate to the diverse customers who were assigned to him.

Creating a unified credit view from diverse backgrounds

Okay, you've met the members of my "gallery." Now, here's what I want you to think about.

First, let's agree that credit outcomes should have a high degree of predictability and consistency.

And I think we'd agree that they should be the product of replicable processes, while allowing for creativity and imagination in solving customer problems and issues.

How important is it that lenders share common experiences in the same or a very similar environment?

I think it's essential. This means that there needs to be an apprenticeship period for everyone, that has common and defined elements to it. These include a thorough knowledge of accounting, mastery of documentation issues, and a thorough grounding in the proper application and working of internal controls.

Dangers of assuming everyone has the essentials

In turn, I'll ask: What is the common thread among the people that I've described?

Many of them largely learned their skills and acquired their habits in other places.

And herein lies the danger of that. My own observations over the years and a variety of geographies is that there are significant gaps in the consistency and formality of commercial lender training.

At the same time, the acceptable margin of error in successful commercial lending is shrinking.

Consistent outcomes require consistent and reinforced processes. If you assume people have it all down before they start working at your bank, you may be in for a surprise.

Our industry is under-investing in training and over-assuming about acquired skills in this important area. Might there be loan quality issues buried in these histories? What do we do about it?

An attitude I found in the course of my career was that management often simply assumed that anyone who had had a few years at a lending desk in another bank, particularly an alumnus of a big and successful out-of-state bank (e.g., an upstream correspondent,) had properly learned the basics. Bit assumption.

Consider too, that the behaviors formed from years in other working in environments are not always consistent with the desired culture of the surviving entity.

Nor is there any insurance policy against the hazards of sloppy habits that might have been tolerated elsewhere.

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.

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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