WHEN CONSOLIDATION COMES, HOW WILL WE BRIDGE THE CREDIT CULTURES?

Ed offers four tips to help smooth the transitions

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During the late 1970s, Florida's Southeast Banking Corp. was the largest banking company in the Southeast and was in an expansive mode, acquiring many community banks around the state. Southeast had the strongest geographical franchise in and around Miami and publicly traded shares listed on the New York Stock Exchange. The strategy was to capitalize on both and build a regional banking powerhouse.

As I think back on those days with my former employer, they resemble in some significant ways some discussions we're having in 2012.

Past is future, Florida style

Many community banks in Florida were locked into ways of thinking and acting due to limited capital access for physical and technological expansion.

Another issue was the inability of community bank shareholders to easily liquidate (sell) their investments. Sale of privately traded bank stock has never been easy, so the ability to trade an illiquid stock for one with a ready market stock was very attractive for some.

By the mid-1970s, Southeast Banking had total assets of about $4 billion. About half of that consisted of Southeast First National Bank of Miami, while the rest was made up of about 40 banks of small to medium size around the rest of the state. Intrastate branching was still about five years away.

My boss used to say that Florida's growth in the years after World War II owed more to central air-conditioning and Eastern Airlines than anything else. Those are factors quite unrelated to the banking business but they were powerful catalysts for growth in Florida at that time.

Business life was changing fast in Florida in those days. And today our industry sees that everywhere. Talk of consolidations and combinations in our business--though the pace is slow today--make the Florida experience important in a credit sense.

Pushing credit culture into the field

The holding company's senior executive for affiliate banking recognized the need to improve the quality of credit training for the lending staffs of the banks the company had been acquiring, and hoped to continue acquiring, in coming years. I was given the charge to structure commercial loan credit training for the affiliate banks and to create a sense of common experiences across a big slice of geography.

The commercial credit expertise of the big bank was not really applicable or readily transferrable to the needs of the community banks now stretching north from Miami to the Florida panhandle--a distance of several hundred miles.

Southeast First of Miami had a proud tradition and culture. In fact, it considered itself the "Morgan of the Southeast."

How different this was culturally from a community bank in the rural parts of north-central Florida or the tourist-oriented markets of Florida's East or Gulf Coasts. The banking environment I'm describing existed 30 years ago and has changed since in terms of banking structures and laws. The underlying market differences have largely survived to this day.

What seemed unfortunate to me as I assumed responsibility for the commercial credit training of the community bankers into some of the ways of the lead bank in Miami was how unprepared many were for the coming market changes. Southeast and Barnett Banks and other big companies were acquiring country banks and merging them into what would become large statewide banking systems. A lender with the title of EVP in a Panhandle community would not likely be an experienced professional peer of a similarly titled lender in Miami.

In many ways, we're doing a reprise of the circumstances I observed in Florida so many years ago. This time, though, it's industrywide and the result of the consolidations unleashed by technology and competition. There will be winners and losers among the stockholder groups and there will most certainly be winners and losers among staff members who have not been properly prepared for the environment awaiting them.

The problem is a variant of an older one. In some important ways it's not very different from when an experienced lender is recruited to a new environment.

- • Will he or she fit or be properly trained?

- • Is the intellectual package as attractive as the external physical package appears to be?

You just don't know--and you can't be expected to know to a standard that can ever be fool proof.

How do we contain the risks? 4 ideas

Mistakes and missteps will occur. Some will be costly. It's inevitable. How can we who are assimilating or being assimilated take some of the risk out of these transactions for our ownerships and for our own careers and of our working colleagues?

Start by acknowledging that while there is much that unites us by experience and function, the differences can be profound. By understanding this simple fact and building it into our planning, we are moving toward a solution, or at least addressing the causes of future dysfunction.

If I were given the responsibilities today of senior credit officer of a newly consolidated community bank, these would be my hard and fast rules:

1. Make no assumptions on the degree of credit sophistication or competence about people you don't really know.

Provide a common assimilation type of credit training with the surviving bank's credit policy as its core document. If the policy needs updating for new territories, markets, or product lines, have that all done before the institutions are merged. Begin the training at once after the consolidation and if it involves travel and related costs, build those into the merger economics.

2. Renew your commitment to internal controls.

Prior habits or ways of doing things that are not shared in common with the merged bank must be stopped--period.

If one bank did it better or in a more common-sense way than the other, it's a chance to make some changes and reflect both openness to new thinking and a reaffirmation of sound procedures. Any waffling in these areas during the early days of a consolidation will do much long term harm. Someone has got to be in charge and confusion on who that is will be deadly.

Do you remember how your kids as preschoolers used to challenge you? Expect that and much more from the 35- and 40-year-olds with whom you must now work--and cooperate.

3. Treat everyone with unfailing respect.

Mergers are hard to experience. Anyone, for example, who finds himself or herself newlywed when no longer very young understands how difficult negotiating new behaviors and interactions can be. None of them are impossible--but some are made much more difficult by insensitivity to those around you and over whom you exercise authority.

4. Take your job seriously but never yourself.

You can be replaced in the blink of an eye but the position will endure.

For stockholders and employees on both sides of the newly merged institution, keep in mind that the merger represents both a second chance at a more prosperous future as well as new opportunities in a shrinking field of participants.

The core elements of success will consist of equal measures of technical proficiency and common sense execution. You also have to rely on new partners to make this happen. Few things can be more challenging today but more worthwhile based on a successful outcome.

A happy result is neither automatic nor assured.

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 bega 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

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