CREDIT STANDARDS DON'T ALWAYS SHOW--BUT THEY ALWAYS MATTER

A Charlie Fritscher story...
* * *

After my column a month or so ago about Charlie Fritscher, the head of The Bank of New York's credit department when I was a trainee, I was asked what other lessons I recall learning from Charlie. Memory has dimmed some of the clarity, and certainly the volume of these recollections. But I occasionally remember examples as relevant to today's environment and to any other that I've worked in during the intervening years.

What got me thinking about Charlie again is something that's surfaced in my educational work of late.

Your bank and its business

No one has a "right" to an account with your bank.

This sounds simple enough. And now I've said it in black and white.

But there's a heretical notion among some younger bankers somewhat akin to the idea that a bank is a public utility and should be accessible by all.

Some of you will recall Alex Sheshunoff, a very well-known banking consultant over the years. He is probably best remembered for his advice and counsel on customer service.

Sheshunoff recommended that banks divide their customer bases into broad categories approximately as follows:

- • Best,

- • Losers but Improvable

- • Plain Losers.

This involves recognition. Then comes action.

- Lavish appropriate attention on the best, so they know that you appreciate them.

- Develop plans to cross-sell services to the next group to make them profitable.

- And for the losers, get them out of the bank or service charge them aggressively to the point where they are no longer unprofitable.

I can't tell you the howls of protest that I've heard from members of my banking classes over the years as I've expounded on the now-classical Sheshunoff advice.

"Every customer is entitled to great service and we give it faithfully" is a paraphrased response that I've heard many, many times.

This simply makes no sense at all.

Why would you treat a customer who is costing the bank money with the same attention as one who is contributing significantly to the bank's profitability?

Not even the Community Reinvestment Act in its most insidious forms imposes such a requirement on banks.

What Charlie had to say on the subject

I'm certain Charlie Fritscher would agree with Sheshunoff if they could meet and talk today.

But Charlie's view was deeper and more subtle than Sheshunoff's marketing strategies. Charlie would also say that anyone who becomes a customer of his bank should be worthy of the bank in the character and integrity sense.

I vividly recall one of our mid-level lending manager's reactions to the opening of a new account by a customer he felt was not appropriate for The Bank of New York.

He had personally declined on more than one occasion a substantial deposit account from a business prospect with substantial domestic and international business. The customer had subsequently slipped in through the International Department and it was only upon reading the "Accounts Opened Sheet" that circulated daily among the bank's officers that this new account was spotted by the lender.

His reaction was immediate and definitive. He insisted that the International Department close the account and marshaled senior internal support among senior bank officials to get that done.

And it was.

Why the account was closed

It was exactly what Charlie had taught him to do and reflected the standards of the bank in terms of customer quality, decorum, and reputation shared by Charlie and all the senior people in the bank at that time. I suspect that it's still true, although the enforcement of a standard like that is probably much more difficult to articulate and enforce in today's environment.

Not too many years later, this particular "ex-customer" was involved in some unsavory business transactions that got

extensive and unfavorable notoriety. That completely vindicated Charlie's often stated standard that even though it's unlikely that anyone even recalled the very brief connection of that company and its principals with the bank.

In today's environment of virtually unlimited and continuous exposure to "reputation risk," Charlie's admonitions acquire a certain "gold standard" quality. They deserve it too.

Charlie also firmly believed that credit people, in order to really understand that side of banking, needed direct and first-hand experience in the working of a bank's credit department. The training program had its formal classroom-type components to it in those days but it also plugged us trainees into the work flow of the bank. Among other things we initiated credit checkings on behalf of our customers and responded to the inquiries of other banks on behalf of their customers. The RMA standards on how to exchange credit information were ingrained in each of us. Even today I find myself using that rather precise language in which banks share information according to professional and ethical standards of bank-to-bank dialogue.

Sharing the gruesome details

The interactions with other banks in a real-time environment also sharpened our skills as interviewers and assessors of the Five Cs of Credit. I recall one amusing telephone conversation with a banker in Richmond, Va. I was inquiring on the bank's experience with a company that we were considering for a significant credit line.

There was negative information to share and the banker was doing his best to put a "good face" on what he was responsible for telling me. It seemed that the subject of the inquiry had experienced a warehouse fire of "suspicious origin" a year or two before.

My respondent put it colorfully:

"In this part of the world, we say that the company sold the building back to the Yankees."

Charlie loved anecdotes like this and used them to pepper us with his teaching points. Generally speaking, we all remembered them better for the humorous and repetitious way he drilled this information into us. There may be other ways to learn credit but being plugged into the middle of the work flow is probably best whatever one's view on how formal a training and development program should be.

There is much talk these days about this question: Are banks too big to be managed effectively? There's something to be said for debating this point.

But the bigger issue, I think, is how an institution creates and maintains a strong credit culture.

Upon close analysis, the cultural glue will almost always be found to consist primarily of the attitudes and ingrained behaviors of people like Charlie. There's simply no substitute for people with character and high standards. We expect it of our customers and we should demand as much and more from our working colleagues.

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.

You can get word about these columns the week they are posted by subscribing to ABA Banking Journal Editors Report e-letter. It's free and takes only a minute to sign up for. Click here.