TIME TO GET THE LENDING TROOPS READY

Warnings, and five action steps

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The current recession is going on five years old. Most of the industry has picked itself up off the bottom and is returning to some degree of normalcy. But problems can linger in attitudes and memories of some participants, and it's time to be sure they are effectively addressed.

Have young lenders been tainted?

I'm concerned today with the young lenders who entered the business in 2007 or so and who have never experienced good times, as many of us have. I don't mean the frothy, unsustainable nonsense that was going on in many institutions seven to ten years ago. Rather we need to be concerned about what recent lessons they have absorbed that have informed them rightly or wrongly about their chosen life's work.

What is their view of the world? Are they jaded about character or the tone of the internal culture of the bank that has prevailed since they joined the bank? Do you know?

Here's another employee subset to worry about: What about those still relatively young lenders who joined the bank ten or so years ago?

They have seen both extremes. I suppose we might conclude "on average" that they are fine and have a balanced perspective.

I'd want to question that easy assumption if I were the chief lender in any decent-sized bank today.

One's habits as a lender are often formed most durably during the early days of his or her career. If your bank doesn't have a well-structured program of developing lending skills, think about what your eight-to-ten-year experienced lenders' habits are.

You may have ample opportunities to judge them but if your environment is like many today emerging from the shock and awe of the last few years, do you really know?

More to the point, how would you know?

I'd want to be sure that the newer lenders who haven't seen a very robust lending environment since they started their careers are nurtured with some care. This can mean mentoring by your experienced lenders. But it probably at its core means that these younger people need to be trained in the basics.

You can't guess about this

It's easy to assume that since they have been a part of the staff for a few years now that you are constantly doing that or have sufficient awareness to detect problem issues.

But what if you're wrong?

What if the environment of the last few years has been traumatic enough that the younger people are picking up the attitudes of the older folks who may not have always reacted constructively or particularly well to very difficult circumstances?

Could it be that your internal systems overreacted to the external forces and your newer staff members are "too tight" with the standards? Or have they "relearned" the Cs of Credit in such a way as to minimize the analysis of Conditions with an excessive reliance on Collateral?

Or has your collective negative experiences with collateral caused you to excessively emphasize Capacity?

There's not a perfect template for all banks to assess these things. To be aware of shifting attitudes and behaviors is important.

And then you must temper those judgments with experience and a sensitive eye. You could be overlooking some behavioral tendencies that are not constructive in the long run.

For the lenders with a dozen or so years of experience, they at least have the benefit of seeing both ends of the credit curve--the very good (too good to last, perhaps) and the depths of the cycle. Were the lessons learned at each end of

this most recent cycle necessarily healthy or holistic?

Five steps to take as lenders wade back in

My own instincts tell me that there has been damage done to the appropriate functional knowledge of how we really want our younger lenders to behave. This factor is only complicated by any previous work place experience that the lender had before joining your staff. Not all training programs or processes are equally adept at the process. The operative judgment though is that the more formal the process the better.

Here are five points that I'd apply to my institutions today if I were the senior lender.

1. Think through the local experiences of your staff in two five-year increments.

These two periods couldn't have been much more different, one from the other. Figure out the likely "wrong lessons" possibly learned in each and watch for those behaviors.

2. Encourage a mentoring process to develop between your seniors and your juniors.

Effective mentoring places a burden on the experienced officers of finding the time and being concerned enough with the process to make it work. But humans are not clones of each other. So not all personality pairings will work equally well. There are occasional homeruns in the mentoring process and they are not as rare as you might imagine. Try it and see what happens--but monitor what's going on and make sure it supports a healthier credit culture for the institution.

3. Make sure that there are ample training and career development opportunities available to the entire staff but especially to the younger members.

A Harvard Business Review study of a few years ago confirmed that employees value opportunities for personal career growth more than any other motivating factor or condition of the work place. They are increasingly loyal to their job descriptions and less so to their employers. Employers who spend money helping employees improve their skill sets get both a more satisfied staff and a more competent one.

4. Use the experiences of the last few years to reevaluate your internal controls.

Think broadly about the controls too as they logically include whether or how you use credit committees in the lender development process, how internal controls (and the willingness to enforce them even ruthlessly if necessary) strengthen a credit culture and whether your mission/vision/values statements describe the actual behaviors and experiences of both staff and customers.

5. Recognize that lenders of all ages need the tools to get the job done.

This isn't just the amount of the training budget I'm talking about.

Rather, it's how the bank is organized in the back office sense to get the various tasks collectively referred to as credit administration accomplished.

Most bankers today work plenty hard but we need to help them work smarter.

Consider finding ways to lighten their load of simple, repetitive tasks to allow them to business develop more effectively and maintain a satisfactory level of account supervision and servicing.

Don't forget the examiners

Perhaps there's one resource that we hardly ever think to ask for input on these sorts of topics. Consider what examiners see and experience in the course of a year's work between the safety and soundness exams of our banks.

What can they tell us about process improvement opportunities and underwriting tendencies at various stages of the business cycle?

Right now there may not be a strong level of mutual trust between lenders and examiners.

But the environment is healing and our best sources of ideas may be our occasional adversaries.

Consider the level of training that examiners are put through in their working lives. We bankers can learn a lot from what they do and not just what they say.

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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