

CURIOSITY, THE ULTIMATE C OF CREDIT?

What makes a lender stand out?

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We have all seen many lists over the years purporting to rank the most important personal attributes of a successful lender. We all know that Character is on top of the list of requisite qualifications for borrowers, but we seldom expend the same energy thinking about what makes for success as a bank lender, the chosen field of many of us.

It's tempting to say that Character should be on the top of any such list--but we all know it's often not. There are too many rogues and cowboys in our business, as business headlines have chronicled in the last few years, to believe that.

In some of my work conducting bank training programs and classroom work on lending I like to run through some supplemental Cs of Credit.

Remember that we're all selling something to each other. The customer is pitching his deal to us; we are pitching the customer's deal to the loan committee, etc.

So, I ask, what about Charm, Charisma and Chutzpah? Are they important?

It works, but is it what we need?

Well, we all know customers who exude charm and charisma ... and how it helps them in their businesses. So we know it's important. Yet the real question is how should we value those talents and personal attributes?

When it comes to assessing the borrower, I think most of us can effectively sort out that such characteristics are probably not terribly important to the repayment of the deal--to our getting our bank's money back.

But if you or I are the senior lending officer at our bank, how much might we be swayed in assessing the qualifications of applicants for an open lending job?

Might the charming man, the one who cuts a fine figure on the golf course or who can charm the chairman's wife or perhaps influence others with bright and witty conversation move to the head of the list due to our excessive valuations of these particular talents?

What I'm really asking is that at this point in the economic recovery and at this point in the evolution of what banks really need to drive revenue, what should be on the short list of what we're looking for?

For me, it's not charm.

Value of a smile for lenders

A few years ago as president of my bank, I learned an important lesson in identifying the personal profile of a successful candidate for our grocery store branches. It was simple--hire people who can smile.

We can teach them how to be tellers or to be effective financial service representatives. Said another way, it's better to hire someone who smiles than to try to teach a sourpuss-type banker how to smile. A friendly, outgoing personality is an important personal characteristic of anyone who works in a service business.

Lenders need to be able to smile easily, authentically, and naturally.

But that's hardly all being a successful lender takes.

Bright minds, not just bright teeth

To me, the defining characteristic that probably trumps all the others most every time is intellectual curiosity. The person who is always wondering why or how something works is the one who will most likely be the most successful.

There are many ways to illustrate what I'm getting at. I want the person who can look at a situation and have a sense of what's missing. A person who can pick out what's amiss in a customer or prospect's narrative.

Think about it in terms of the traditional Cs of Credit.

The intellectually curious lender is probably more likely to conduct a rigorous and thorough due diligence of each C of credit than a person who is less curious.

How do we actually assess character of a business prospect?

What should we look for and how should we conduct our checkings?

Evaluating Conditions, under current conditions

Putting aside character for the moment as something that we all presumably agree on, I think that the biggest challenge to assessing risk in the typical loan application is a proper assessment of Conditions. Our economy faces enormous challenges--fiscal cliff, threat of a new recession, personal and business tax code reform, and the rapidity of technological change.

Remember that the fundamental purpose of most loans is a "permanent" use of funds (more than a year) and that we fund these largely long-term uses with almost exclusively short-term sources of funds. With rates as low as they have ever been in modern economic times, borrowers will forego accrued but unpaid interest to cash out of a CD early so from a functional point of view, there are really no long-term deposits right now.

This means that lenders have to be serious students of how things are likely to work out in practice and over time.

Will the borrower's plan succeed? What can go wrong? How can the bank be protected adequately from the array of possible contingencies?

And of course we have to figure all of this out on almost a real time environment while the borrower or the prospect is conducting negotiations with one or more of our competitors. Not much today occurs in a vacuum.

Hire for the right reasons

I have no foolproof list of things to look for in hiring lenders. But if you sense that someone is intellectually curious and he

or she would like to be a lender, then in an analogous way to my example of finding the best people to staff a grocery store branch, hire the smile.

One of the best lenders I think I ever worked with was a young man who had a commercial finance background. He knew credit inside out and that's a testament to his training.

But he was an intellectually curious fellow who almost always heard and saw more than the rest of us did from the same set of circumstances. Yes, he was bright--but it was a certain way of being bright.

Lending is tough work. It requires hustle, smarts, experience, integrity, and curiosity. I'll take equal doses of integrity and curiosity to staff my lending line and I bet that we'll run circles around the competition for all the right reasons

These are serious issues. Our business models all are under assault and we seem to have few friends politically or among the bank regulatory agencies.

If we get this right, then everyone wins.

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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