No trouble, no learning

You'd think, from reading or viewing the general media coverage of economic issues, that bankers are a bunch of fools, crooks, greedy so-and-so's, or all three. Bankers are a convenient and popular target. Even in the best of times, bankers are rarely seen as heroes. Not collectively, anyway. So you have to steel yourself-or put on a Teflon shell-during this difficult period, and take satisfaction from the good things you help accomplish.

While no one should entirely discount public opinion, banking is simply not understood by the public, by the general media, by many politicians, or even by many of its own customers.

The old saying, if you never have a loan loss, you’re not making enough loans, would not be understood outside banking.

If banks only loaned money for sure things, they would essentially have portfolios of T-bills. And of course, banks never got credit for all the years that loan losses were low. But now that classified loans and charge-offs are climbing, now that all lenders have been tarred by the subprime brush, the condemnations roll in. Pull back too soon or too much and you’ll be accused of abetting a credit crunch or even a recession. Loan too freely and you’re dragging unwitting innocents into certain bankruptcy.

There are two parties (at least) to a loan, folks. A borrower who needs extra funds to do something, and a lender willing to advance funds with interest on the assumption that the principle will be returned. The whole thing is a calculated risk.

The most routine working-capital loan, or a loan for a fast-food outlet of a popular chain in a growing market, can go awry for a dozen reasons. Many of the reasons can be envisioned—and are—by lenders with a prudent underwriting process, but no one makes loans only on a worst-case basis. That’s why there is collateral, not to mention personal guarantees, covenants, insurance, and so forth.

There is risk in almost everything a bank does, and for that matter there’s risk in what each of its customers does—commercial and individual. So even the most conservative lenders will get caught now and then. And when the economy as a whole heads south (or more accurately when the economy in which the bank operates heads south), no bank will avoid loan losses.

Hence our cover story on workouts.

It is fair to say, however, that the current situation is far worse than it need be because of the collective effect of wrong, foolish, or questionable decisions by many parties, banks and regulators among them. These decisions related to relaxed lending standards or controls, and to turning a blind eye to questionable practices.

Such things will happen as long as people inhabit the Earth. The important thing is to learn something from the trouble—whether we helped bring it about or were simply caught up in it. When trouble happens is when we can learn the most.

A good example of this is what Frost Bank CEO, Dick Evans, talks about in the cover story, which begins on page 27. Having learned from the bad things that happened in Texas 20+ years ago, he and his bank not only avoided some of the earlier mistakes in this round, but are applying the lessons of those difficult times in the current situation.

That’s progress.

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