CREDIT CULTURE REBOOT, PART I: THE UNTRAINED LENDERâ€”AND WHAT TO DO ABOUT IT

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Credit culture needs a “reboot,” or at least, a revisiting, in many banks today. The credit cycle’s impact has been amplified by some bankers’ exuberant belief that there is an acceptable long-term alternative to what blogger Ed O’Leary refers to as a “conservative credit culture.” This special “Talking Credit” series will examine the fundamentals of bank credit culture, and explore how management and lender can revisit how they grant credit. –The Executive Editor

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Many community bankers work for institutions that do not have formal training programs for their lenders. This raises certain fundamental career issues for bankers and some disturbing long term questions for shareholders. To the point: How many of you can identify with the issue of being unprepared for the lending environment in your local markets both currently and prospectively? How many of you feel that the recent credit malaise has exposed fundamental flaws or gaps in your training and development? Do you feel properly prepared for the future as commercial lenders?

My own experience is that of completing a big bank training program at The Bank of New York in the late sixties. Over the course of 18 months or so, we were exposed to all phases of the credit extension process—answering credit inquiries on corporate customers; “spreading” financial statements in such a way as to build a base for internal credit analysis over many years; and writing credit justification memos for the bank’s loan committee. The latter was under the direct supervision of experienced credit people who were independent of the line lending officers. An additional part of our training consisted of occasional ad hoc projects for line lenders or for management.

By the time we were assigned to the lending line, we knew the bank’s processes inside and out. We had also gained very clear expectations of the bank’s credit standards. We knew what we knew; but we also knew what we didn’t know (although we were seldom quite that modest in expressing our opinions).

Community banks have various ways of developing their lenders. Some simply hire experienced lenders and leave the training to larger banks. Others bring in young people fresh from college or early in their working years and put them through a series of assignments, generally as understudies to experienced lenders. Most provide additional opportunities for “external” training such as banking schools to address career development and personal growth needs of lenders.

The question that seems most urgent to me is whether a particular bank has a clear idea of the skill sets necessary to successfully lend money.

Credit risk management begins with the fundamental skill level of the lender.

But an effective risk management system requires an internal bank consensus of just what those skills should be and the best ways they should be learned, practiced, developed, and nurtured.

Other important components of a sound and effective system include an independent loan review; clear and sensible policies on minimally acceptable standards of information; and credit strength of the borrower and appropriate documentation. The list is longer than these few specifics but always and everywhere the foundation has got to originate with the skill sets of the lender.

What do you think should comprise the basic skill set of a lender in the first two or three years of his or her working career? Of particular interest is whether these are expectations that seem to be generally shared within the bank and its management and whether these expectations are clearly identified.

How we as an industry should train our people is a “train whom for what” question. Let’s see if there’s a base level of understanding about what needs to be done, before we address the means of accomplishing the building of a base level of competence.

Future instalments of this series will take fresh looks at lender mentoring, the role of credit committee structure, loan policies, and more.

Comment on this instalment below. Suggest future topics in the series to Ed O’Leary at etoleary@att.net

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 a frequent speaker in ABA's Bank Director Telephone Briefing series. You can hear interviews with Ed about workouts here. You can e-mail him at etoleary@att.net. O'Leary's website can be found at www.etoleary.com.

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