
CREDIT CULTURE REBOOT, PART II: FIVE PLACES TO IMPROVE LENDING TRAINING

Have your younger lenders been learning from the wrong people?

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. If you missed part 1, the introduction to the series, [click here](#). —The Execu

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There is no right or wrong way to train lenders.

However, there are key components that most banks employ to varying degrees. Bank size, and the complexity of the local market, seem to be the major drivers. But all of you who lend money will recognize all or most of these techniques. The important issue facing bank managements and boards is figuring out what combination of things best suits the bank both in the short run and for the next generation of lending leadership.

Here's a partial list of most common approaches.

Mentoring. Seasoned lenders in any bank are the most logical people to share responsibility for bringing younger lenders along. This begs the question, though, of whether these mentors are particularly well trained in the basics … or are more seat of the pants lenders who have been fortunate enough to have been "right" most of the time.

The biggest risk to the learning curve of the juniors is whether they are learning bad habits and will perpetuate them for years to come.

This reminds me of memorable advice from a credit administrator at Southeast Banking Corporation many years ago: "Just because a loan pays off doesn't mean that it was a good loan."

Loan Committees. One of the biggest advantages ascribed to loan committees is the ability to get the "best thinking" on credits. It represents the opportunity to pool knowledge of the local community; information on borrowers; and analytical and structuring skills of the committee members.

But not all experiences with credit committees are necessarily positive and constructive. Committees can act as rubber stamps for senior people. They can stifle discussion based on the rank or personality traits of the chairman. And they can give a platform or forum to a bully.

The fact of the durability of loan committees over the years suggests that many have concluded that the benefits outweigh the negatives.

But who is the best judge of that? How can the board of directors be sure?

Formal Training Programs—Small Banks. Many community banks feel that they can't afford the overhead burden of a separate credit department. That may be a reasonable conclusion. Credit analysis skills are learned, not inherited, so if there is no formal opportunity to learn them in-house, it's important for the bank to figure out other methods of developing this skill. Some degree of formality in the process is also essential.

Are there cost-effective ways of developing such skills? Are the programs offered by trade associations and other vendors effective in your experience? What else might smaller banks do?

Formal Training Programs—Larger Banks. Training programs are typically present in larger banks, those of several hundred million in total assets and larger. The advantages are significant to both the bank and the younger lenders. From the bank's point of view, it is a way of teaching "how we do credit." The trainees are nurtured in a more personal and hands-on way with the opportunity to create learning and performance benchmarks.

Loan Policy. Every loan policy is proscriptive. It sets out the bank's standards of analysis, credit integrity, minimally acceptable documentation, desirable and undesirable loans, and other related matters. This is the directors' policy, though the board normally requires the technical assistance of one or more lenders to develop and maintain an effective policy.

How many banks formally undertake to determine whether the loan policy is doing the job or not? How should this be approached and integrated into the bank's appetite for risk? Are there any key components to this process?

What bothers me, as I look into my crystal ball, is the lack of any sort of standardization in what should constitute the effective training of lenders.

As community banks expand by either organic growth or acquisition, how is the internal "sense" of good credit or bad formed and inculcated?

Without careful and thoughtful consideration, any internal sense or consensus will be practically impossible.

Such banks' lending staffs may be left with habits and attitudes of the loudest talkers; the oldest lenders (one year of experience innumerable times); or perhaps in an objective sense with the value systems of the least qualified persons in the organization.

The recent miserable experience of many financial institutions to define, enforce, and nurture effective risk management systems and practices suggests that lender training is far too important to leave to chance.

What do you think works well in your bank in reducing credit risk, improving lending results, and creating a generation of sensible, risk-averse lenders?

We've got the best opportunity of the last 20 years right now to do this right.

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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