# CREDIT CULTURE REBOOT, PART III: IS THERE A â€œCORE CURRICULUMâ€• FOR LENDERS?

Should bankers try to define the sorts of analytical techniques that should be a standard part of any lending officer's skill set?

* * *

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 earlier instalments, click here for Part One  and here for Part Two. –The Executive Editor

About a half a dozen years after finishing the loan officer training program at The Bank of New York, I was working as a corporate lender at Southeast First National Bank of Miami. One of my colleagues was a relatively recent product of Citibank’s credit training program. Citi was one of the first banks to formally train its lenders in analyzing cash flows and reconciling changes in balance sheet accounts back to cash. While this was not a revolutionary technique, it was a more sophisticated way to understand a borrower’s capacity to repay debt.

It took a few years for this methodology to become widespread as an analytical technique among the larger banks. I’m still not sure that it’s a common analytical discipline in community banks today.

This raises an important question:

Can we, or should we, try to define the sorts of analytical techniques that should be a standard part of any lending officer’s skill set? Something portable that every lender would bring to any bank lending  job, ideally?

The ABA has had a commercial lender certification program for a number of years. When I was an active lender, I maintained that designation. This and other continuing education programs are useful in improving and maintaining skill sets of lenders, especially those working for banks without formal or extensive internal development programs.

My concerns today are less with a “check list” approach to lender development. Rather, to me, it’s the question of whether smaller - to medium-sized banks can be assured that they have lenders who are qualified to analyze a borrower’s capacity to service debt and to recognize the industry and geographic contexts of risk abatement and control.

This comes up because I sense a renewed and heightened concern throughout the industry about risk management. However, I’m not aware of any developing consensus about what the building blocks of a remedial effort should be.

There are many variables in lending markets today that make no single approach necessarily preferable over any other.

What other ways exist, or might be developed, to evaluate mid-career lenders other than by their business development success and loan loss records?

Here’s an example of the experience/skill set gap that I’m talking about.

Imagine a community bank that is growing both organically and by periodic acquisition.

Management has concluded that it cannot yet justify the cost burden of a formal internal credit training program. A logical alternative would be to hire experienced lenders, those with training or experience gained at other banks. Another would be to send younger lenders to a series of training courses and workshops. While such training tends to be cumulatively expensive, it is also valuable in exposing lenders to different techniques and  to a variety of ways of looking at credit issues.

Either approach begs the question of credit standards, formality, depth of understanding, and objective measurement of risk management results.

We all know or can recall working with “seat of the pants” lenders. These are the people who put inordinate faith in their ability to determine a borrower’s character and personal integrity.

But more than character assessment is necessary to successfully lend money today.

Successful lending requires the following skills:

• Analysis of capacity to service debt

• Ability to properly structure loans (e.g., matching sources of repayment with the structure or “architecture” of the deal)

• Ability to correctly document loans and perfect security interests

• A certain humility about what we actually know.

Where do these skills come from in banks without formal training or development programs? How are the skills assessed? How does executive management forge disparate experiences and views into a cohesive “sense” of how its particular bank should conduct its business and set it credit standards?

This is harder work than it seems. Certainly, the evidence has been accumulating over the last 18 months that these issues have not been addressed adequately—if they have been addressed at all.

How might banks approach the answer to these questions?

Are there some common threads around which to start building an industry consensus?

What are the likely consequences of continuing to ignore these matters?

Postscript for further thought: Here’s a question that executive management and the board should consider:

Why does it appear that there is a higher, if not almost epidemic, level of personal misbehavior in recent years? Human nature is essentially unchanged since Adam and Eve were expelled from the Garden of Eden. Why are behavioral lapses so widespread today compared to perhaps our own experiences of less than a generation ago? Are we dealing with something new? Or were we collectively guilty of sweeping an old problem under the rug?

Think about this. We’ll treat with it further in the future.

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.

Order Ed O'Leary's two-hour "Improving Your Bank's Workout Function" CD