DO YOU HAVE A DR. NO IN LENDING

by Steve Brown

Every bank has had a "Dr. No" at one point or another in their credit department. Usually it is the CCO, named not so much because they are like the torturous villain in the first James Bond film, but because they have a habit of declining loans faster than Bond can order martinis. Line lenders and managers love to complain about their Dr. No. However, lest anyone take shots at their bank's Dr. No, consider the position that most are in. Bank credit, by its very nature, is an asymmetric risk. The CCO has more downside than upside, made worse by a compensation system that fires them for too many non-accruals. Rarely are these individuals rewarded if loans perform better than expected. When you think about it, anybody put in that position would rightfully move underwriting standards tighter in an attempt to equalize the risk / reward profile. This situation is made multiple times worse when you also consider the asymmetric nature of resource allocation. If Dr. No says "Yes" to a loan, then he has to spend 12+ hours in resources underwriting, documenting, boarding and managing it through the formal approval process. Say "No" to a loan and resource expenditure can be kept to a minimum. If the typical credit department in a community bank has a credit staff of 5 and sees 5 deals a day from their lenders, then the simple math is that credit must reject 3 out of every 5 loans. Of course, all loans are not equal, which makes things more complicated and often means that lenders trying to prioritize loans end up with fire drills instead. In an effort to quickly satisfy client requests, lenders often try to get credit into the queue as soon as possible. Thus, they find themselves forced to process that credit with less-than-adequate information. Things then go from bad to worse, as the credit department is either forced to ask for additional information or is forced to make sub-optimal decisions based on incomplete information. Unable to focus attention one credit at a time all the way through the process (due to the lack of adequate information) the department ends up juggling several credits simultaneously (making the process more inefficient). By this time the client feels delayed and made to work coming up with additional information and then starts taking it out on the lending officer. The lending officer, in turn, puts renewed pressure on credit. Now, the CCO must not only process the loans according to profitability, but now must spend additional resources triaging a potential loan's political ramifications. When taken in this context, it is easy to see why saying "No" right up front might be preferred to this SPECTRE-like torture. Throw in some vacation time, sick leave, a bunch of random auditors, some BSA/SOX compliance issues and a variety of special projects and that 5 person loan department must now say no to 4.2 out of every 5 loans just to stay even. Oddly, some will recall that the fictional Dr. No presided over a bird guano farm. While we are not saying there are similarities to your bank's operation, our point here is that before you hang the moniker of Dr. No on your CCO, take a moment to understand the system they are working under and ask yourself how much culpability do you have? Like all good spy thrillers, readers will need to tune in tomorrow to learn about some common fixes loan departments can make to get more "Yes" out of their Dr. No.

BANK NEWS

M&A

Camden National Bank ($1.7B, ME) will acquire the HC of Union Trust Co. ($541mm, ME), for $72.5mm, or about 1.8x book. The merger creates the largest independent community banking organization in Maine.

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Lebanon Citizens National Bank ($539mm, OH) will acquire Cincinnati-based Sycamore National Bank ($49mm, OH) for $9.7mm, or about 2.1x book.

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Elmira Savings Bank ($376mm, NY) will buy 4 branches from the HC of First Niagara Bank ($7.9B, NY), for $14.4mm.

Mobile Banking

Verizon Wireless and Bank of America have teamed up to let customers access their bank account from their cell phone. The service, dubbed "Mobile Web 2.0" will allow users to check account balances, pay bills, view transactions, and transfer funds between accounts.

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