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Financial Lending Notes

A Newsletter for Commercial Lenders

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The Lending Talent Shortage

Hiring Lenders in a Challenging Environment

It has always been one of the biggest challenges faced by many community banks: attracting, growing and retaining lending talent. The challenge has been exacerbated today by the retirement of many experienced commercial lenders.

As a result, many community banks are scrambling to hire the qualified lenders needed to meet growing loan demand as the economy continues picking up steam.

Training Dries Up

Traditionally, community banks have been able to recruit lenders from large commercial banks, where they received thorough in-house training and development. But fewer big banks today are providing this kind of training, which means that there are fewer qualified lenders available for community banks to hire.

So more community banks are now having to take on the responsibility of training commercial lenders themselves. This includes teaching young and inexperienced lenders fundamental skills such as financial and cash flow analysis, loan structure and problem loan identification.

The good news is that there are more lender training resources available today than ever before, including:

- Online and webinar-based programs such as those offered by state banking associations and the Risk Management Association
- Computer-based training packages such as those offered by Shockproof! Training
- State banking association commercial lending schools and community colleges

Of course, in-person training will be more expensive than online or computer-based training. The latter is often more appropriate for teaching new lenders foundational basics, while in-person courses can take training to the next level by offering more application and interaction with other students.

Make the Commitment

If your bank plans to take on the responsibility of lender training, you should realize that it will require a commitment of both time and energy on the part of senior management. A senior lender with credit training experience or a chief credit officer should usually be placed in charge of the training efforts and serve as the internal "champion."

In addition to utilizing formal training programs like those listed above, you should also take advantage of opportunities for new lenders to attend industry conferences, trade shows and seminars such as those offered by the ABA and BAI. These are often a cost-effective way to expose new lenders to some of the latest trends in commercial lending, as well as allow them to meet informally with other lenders who can share their knowledge and experience.

It may also be helpful to include new lenders in your loan committee meetings to give them first-hand exposure to the inner workings of underwriting and loan structure. Start them off underwriting smaller credits to help them gain confidence, and then increase their responsibility gradually based on their demonstrated aptitude.

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Dealing with Disruption

Are You Ready for Banking Industry Disrupters?

If businesses have learned anything about staying relevant in the 21st century marketplace, it's that you have to learn how to deal with disruption. The list of business disrupters keeps growing longer and longer.

Perhaps the biggest disrupter of all, Amazon, has transformed entire industries since it started out selling books online more than two decades ago. More recently, companies like Uber and Airbnb are turning the taxi cab and lodging industries upside-down.

Banks Aren't Immune

The banking industry isn't immune to the effects of business disrupters. A whole new slate of financial services providers has popped up in recent years to challenge the traditional banking model of providing loans, checking and savings accounts, and other financial products.

In particular, fintech companies are emerging as perhaps the biggest threat to traditional community banks. Fintech firms use the latest online technology to provide loans, insurance, savings and investment products, and funds transfers and payments more efficiently and at a lower cost than banks often can.

The list of fintech disrupters includes many well-known companies such as marketplace lenders OnDeck and LendingClub, robo-advisors Betterment and Wealthfront, and payment processors PayPal and Square. These companies are using technology and the Internet to deliver financial products and services both faster and cheaper.

Many young entrepreneurs and small business owners are especially receptive to doing business with fintech companies like these. Conducting financial transactions online comes naturally for them and many see little value in working with a traditional bank or visiting a brick-and-mortar branch.

Strategies to Compete

So what can your community bank do to compete with these fintech disrupters and preserve and grow your market share? Start by emphasizing your biggest competitive advantage against fintech companies: your ability to add the personal touch to relationships with your customers.

Marketplace lenders might be able to approve loan requests in minutes, but they can't offer the kind of personal, value-added service your bank can. Your bankers should focus on fulfilling their role as a trusted business advisor, not just a provider of financial transactions.

One of the best ways to do this is to turn what some borrowers view as a negative when borrowing from a bank — the need to provide comprehensive financial information along with a loan application — into a positive. You can do this by using the information to show borrowers how to operate more efficiently and thus boost their sales and profits — of course, without telling them how to run their business, which could possibly expose the bank to liability.

Maximize Your Advantages

Here are a few more strategies for maximizing your competitive advantage of being a trusted business advisor:

• Help your borrowers benchmark their performance against competitors by providing them with competitive industry information such as that provided by IBISWorld, First Research and RMA Statement Studies.

• Offer guidance to help borrowers determine the best type of loan for their particular financing need.

• Show borrowers how additional bank products and services beyond loans can help them meet other business challenges and needs. These include treasury management, wealth management and merchant processing services that often aren't offered by fintech competitors.

In order to free up bankers to be trusted business advisors, you should remove any steps in the credit evaluation process that don't add value for the customer. This involves taking a page from the fintech playbook and using technology to automate these processes whenever possible.

Also, work on simplifying your loan application process and shortening your loan approval time as much as you can. And take steps to reduce your loan underwriting and funding costs, especially on small business loans less than $100,000.

Plan for Disruption Now

The list of bankrupt companies that were unable to adapt to the disruption caused by Amazon and other disrupters is long and keeps growing. We don't know yet what the future holds when it comes to financial services disrupters, but now is the time to plan for how your community bank will deal with them.

The Lending Talent Shortage

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What Attracts Talent

When it comes to recruiting and retaining lenders, talent is usually attracted by two main things: money and opportunity. While you might not be able to compete with big banks in the compensation area, there are other things you can do to level the hiring playing field.

For example, you can probably offer lenders a better work-life balance than they are likely to experience at a big bank. The big compensation packages they offer usually come with a price; namely, long hours and high levels of stress. Some, though certainly not all, lenders will be willing to accept less compensation in exchange for a higher quality of life.

Here are a few more tips for hiring and retaining talented new commercial lenders:

Tap your network. The professional networks you and other senior managers have built over time should be the first place you turn in your search for qualified new lenders. Hiring lenders you've worked with in the past can eliminate a lot of the uncertainty involved in making new hires.

Offer opportunities for early advancement. This is just as important as money to some new lenders. Demonstrate a clear career path with advancement opportunities for lenders who excel in their job.

Empower young lenders. When they're ready, give new lenders some real responsibility by letting them perform basic credit analysis, assess lending opportunities and make decisions.

Structure your compensation package carefully. The ideal lender comp package includes some level of incentives so a portion of compensation is based on performance. Ideally, lender compensation should be based on such factors as business development, relationship management, profitability (at both the bank and portfolio levels), asset quality, and timely and accurate assignment of Asset Quality Ratings (AQRs).

Create an internship program. This is a great way to identify young talent early on and give students some early exposure to your bank's culture and environment. If things go well, your bank could have the early edge in hiring students once they graduate and enter the job market.

Help repay student loans. This strategy is being utilized by businesses in many industries to attract talented young employees.

Finally, remember that young lenders need strong mentoring in order to reach their full potential. Each new lender should be assigned a more senior lender to serve as his or her mentor who can provide guidance, encouragement and advice.

Please contact us if you have more questions about attracting and growing lending talent in today's challenging environment.

Which Lender Model Do You Use?

One trend among some community banks today is separating the sales and credit analysis functions of commercial lending. Doing so helps free up lenders to spend more time concentrating on business development by centralizing the credit function with a pure credit analyst.

But there are some risks to using this model for your commercial lenders. For example, lenders who don't fully understand credit analysis often don't know how to recommend the right loans to borrowers or what information to request from borrowers, so they may submit incomplete loan applications.

Also, they often don't pre-qualify borrowers to identify potential problems ahead of time, so loan applications with little chance of approval are submitted, thus clogging up underwriting. Therefore, it's usually smart to provide at least some credit training to lenders even if they will be focusing mainly on business development.

You also need to clearly define your model before hiring new commercial lenders. This will help you focus your search on candidates who have the specific skills you need — whether business development, credit analysis or both.

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What's the Latest on Dodd-Frank Section 1071?

Section 1071 of the Dodd-Frank Act requires the Consumer Financial Protection Bureau (CFPB) to collect and report data from banks regarding the demographics of small business borrowers and loan applicants. This includes the race and gender of the business owner, the size of the business, and the loan amount, type and interest rate.

One of the goals of this provision is to determine if disparate impact practices are suppressing small business lending among minority-owned and women-owned businesses. But nearly seven years after Dodd-Frank was passed, the CFPB still has not established guidelines for banks to follow in gathering, storing and reporting this data.*

In early June, the CFPB extended the comment deadline on its request for information (RFI) from financial institutions to September 12, 2017. The RFI will represent the first step in the implementation of Section 1071. And in late July, the ABA met with the CFPB to discuss a wide range of issues related to the implementation.

Among the issues discussed were the costs and burdens banks will face in collecting and reporting the data, as well as concerns about customer privacy and financial institution confidentiality. They also discussed the potential for misinterpretation of the data and the possibility that incorrect conclusions could be made about the data once it is collected and released.

In the past, the ABA has spoken out against Section 1071, calling the provision "misguided." And the Consumer Bankers Association has stated that the provision "would place considerable and unnecessary burdens on small businesses and lenders, producing a negative effect."

The timing of Section 1071 finalization may be uncertain, but this isn't an excuse to sweep it under the rug. Start thinking now about how your bank will gather, store and report demographic data once the RFI is finalized.

**As of press time, these guidelines had not yet been promulgated.*