# *Are You Prepared For The Next Generation of Problem Loans? Do They Already Reside On Your Balance Sheet?*

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When some of you read the title to this article you will react somewhat smugly and say, "of course we are prepared and our asset quality is pristine." Are you –truly prepared? Have you objectively identified which loans in your portfolio will be listed among those to be the next criticized or classified?

One of my passions is teaching other bankers through my affiliation with Georgia Bankers Association and Graduate School of Banking at LSU. Seasoned, professional bankers have a responsibility to prepare the next generation of bankers to be strategic in their thoughts and actions.

My career spans almost 40 years. It has been my experience that successful banks and bankers do five key things well, and if you are doing these well, chances are your bank's asset quality is stellar and your loan portfolio metrics would rank among the top industry performers. So, do your line and credit professionals know these things about each and every customer you/they lend to? How do you lend money?

- How does my customer make money/do I understand their business model?
- What will my borrower use my loan proceeds for?
- How will we be repaid?
- What are the risks to us getting repaid?
- Have I mitigated the repayment risks to an acceptable level?

Is it possible to repeat the past? Are we currently repeating the past? What is the past you may ask? The "past" were those periods in our careers fraught with tremendous internal focus on addressing what seemed to be an ever growing group of criticized and classified loans. Significant amounts of energy and calories were being expended on workouts hindering your ability to play offense in your market. Someone once said to me…."the economy cycles on average about every seven years, trouble is, bankers memories only last six". Lending Institutions who will be winners are those that will:

- Have a culture and discipline to apply sound risk management tools and lessons learned.
- Read the warning signs early both at the individual loan level and portfolio level.
- Cull the winners from losers early – migration analysis.
- Be pro-active in managing high risk assets – have a sense of urgency.
- Think like "Traders" and not be afraid to identify, develop and execute exit strategies.

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- Stay within their core competencies.
- Staff properly and provide your team with knowledge, tools and support to perform.

I love a good competition. Healthy competition benefits our shareholders, customers and employees. Please consider this challenge. Bad loans–have we really learned from our past mistakes? Would one of your competitors look at you and say “what are they thinking?” Furthermore, if you were completely honest and reflective on your practices today, how many of you would say to yourself…”what are we thinking?”

I will leave you with an anonymous quote I came across over 25 years ago that I hope you will find as challenging as I do. “Those who forget and fail to learn from the past are condemned to repeat it and it’s a person’s ignorance that gets them into trouble and their arrogance that keeps them there.”