

Effective Credit Risk Management

Respect and Dealing in Good Faith / Transcription

Objective

- *Respect / The Big “Why”* – Understanding why borrowers with problem loans deserve respect
- *Do Good Business* – Understand how doing good business benefits the bank, bankers, shareholders

Expectations

- *Always Be Respectful* – Due regard for the feelings, wishes, and rights of others
- *Always Deal in Good Faith* – Mediation, negotiation, peacekeeping, tact, discretion

Why Borrowers Deserve Due Respect



The Big “Why”

- *Dignity as Human Beings* – First of all, business owners are individuals, just like you. You deserve due respect, always. Borrowers deserve due respect too, even when things get tough. They wake up each morning and get dressed just like everyone else. They have personal needs and desires just like everyone else. They take on heavy responsibilities and manage the company’s operations so payrolls and debt repayment are possible. What can you do differently to give the borrower the respect and dignity he deserves?
- *Respect Builds Trust* – First of all, the borrowing relationship was built on mutual trust, else the extension of credit would not have funded in the first place. When the banker treats the borrower with respect, it fosters a spirit of cooperation. A cooperative and productive relationship is materially less expensive to the bank, as opposed to an adversarial relationship. Set the tone from the beginning, that you value and appreciate the owner(s) as individuals. Let them know that you intend on maintaining a healthy relationship, and that you and the borrower should work together in a cooperative manner at this difficult time
- *A Borrower with a Problem Loan, is not a Problem Borrower* – While most bankers have conquered the complexities of cash flow, some bankers view and treat borrowers who are having financial difficulties, not like human beings, but like numbers on financial statements (total disregard). Many institutions value *respect* as one of its core values. But does that respect only apply to interactions within the bank itself, or does it also include the bank’s customers who are in financial trouble?
- *Put Yourself in the Borrower’s Shoes* – A borrower in financial trouble may be experiencing highly stressful and mixed emotions like never before. Great uncertainty is at play. A borrower is unsure whether it might default on its loan, or make payroll, and what comes next. How would you like to be treated if you were in the borrower’s shoes? Seriously. Think about it. Some bankers, dealing with borrowers experiencing financial stress, can easily forget to be respectful, especially when the borrower fails to uphold its covenants in the Loan Agreement

Dealing In Good Faith



A Really Great Fundamental Principal to Remember

○ *Dealing in Good Faith* – How would you describe what doing business in ‘good faith’ means when dealing with a borrower experiencing financial difficulties? Would not every party and stakeholder to the Loan Agreement expect such persons to act in good faith? Maybe it has something to do with being sincere, having good intentions, and what about being honest? Certainly, when the loan was originated, all the parties to the loan were honest and adhered to the terms of the Loan Agreement. But why do

borrowing relationships become soured and contentious? Can the various parties, even when there is disagreement on proposed repayment terms and conditions, not exhibit respect and good faith during those negotiations? What if the borrower becomes contentious and will not deal in good faith? Does the banker lose his temper and just foreclose on the collateral and force the borrower into bankruptcy?

Re-Read the Loan Agreement

- *Exercising Rights vs. Acting Like a Bully* – A borrower has certain rights and responsibilities under the terms of the Loan Agreement. As you carefully read the Loan Agreement, the borrower will obviously see that the bank ‘holds all the cards.’ If the borrower fails to keep its end of the agreement, the bank is entitled to pursue any or all its remedies to recover the exposure. That is fine. But no one should be exercising heavy-handed maneuvers, and display an over-bearing attitude that may be construed as being a bully, especially at the PRO level where no one can or is paying attention to such behavior
- *Avoid Being Over-Bearing or Mean-Spirited* – Being over-bearing, mean-spirited, or heavy-handed with any party to a Loan Agreement is just plain unacceptable. It is in the bank’s best interest to always be respectful, and deal in good faith with each other
- *Let’s Have Dinner* – Another way to view dealing with respect and in good faith would be the following example: “I could try to work out a deal, or take it all the way through foreclosure, or even through bankruptcy, and when it was all over, still have dinner with the borrower.” The bank can and will get whatever it wants due to the loan structure; its repayment will be what it will be. But, how well you manage your own behavior with such borrowers does not mean you need to act tough or like a hard-headed bully. One could ask such an offensive or disrespectful banker: “Who do you think you are?” “You just represent the bank, but the bank would never treat people like this!” So, what will be said of you, your attitude, and your actions? Is there animosity between you and the borrower? Take a close look at the following examples of people dealing with each other in good faith and you will get the picture

Examples of People Dealing With Each Other in Good Faith (Source: Conversation with Bing, 11/14/2023)

- A landlord who returns a tenant's security deposit promptly and without dispute
- A seller who discloses all known defects in a product before selling it to a buyer
- An employer who pays employees on time and in full

- A contractor who completes a project on time and within budget
- A lender who offers a borrower a fair interest rate and repayment terms
- A customer who pays for goods or services received in a timely manner
- A business owner who treats employees with respect and dignity
- A supplier who delivers goods on time and in good condition
- A manufacturer who produces products that meet or exceed industry standards
- A service provider who provides high-quality services to clients
- A lawyer who represents clients with honesty and integrity
- A doctor who provides medical care with compassion and professionalism
- A teacher who treats students with respect and fairness
- A coach who encourages athletes to do their best and play fairly
- A neighbor who respects the privacy and property of others
- A friend who is honest and loyal in their dealings with others
- A family member who supports and cares for their loved ones
- A volunteer who donates their time and resources to help others
- A citizen who obeys the law and respects the rights of others
- A politician who serves their constituents with honesty and integrity