

# RISKY BUSINESS



The Newsletter of the Oklahoma Chapter of The Risk Management Association

Summer 2010

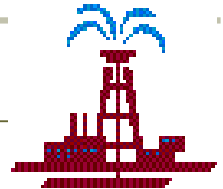
## From the President

My second year as President of The Oklahoma Chapter of RMA comes to an end and I am grateful for the experience. Our chapter is thriving in a business climate that is fragile or even unkind. We have added five banks this past year in the midst of financial turmoil. I must give thanks to all of our member institutions and their support during these difficult times. We are proud to provide products and educational offerings that give value to our members. I trust that the chapter will continue to grow in numbers and prominence with your continued support for the new leadership installed for the upcoming term that begins September 1st. Scott Wrigley, MidFirst Bank, will assume the Chapter Presidency role with Vice President, Fawn Sachleben, Bank of Oklahoma and Secretary-Treasurer, Jamey Webb, Bank of Oklahoma. We have an active Board of Directors that provide a wealth of experience and guidance from a broad cross section of Oklahoma banks. Contact information for all of the board members is listed in this newsletter and I hope that you will find an opportunity to thank these volunteers for the many hours of dedicated service that they provide with the support of their respective institutions. You will continue to see and hear from me as I concentrate on membership this next year as we seek to expand our outreach. Thanks again for a great ride.

## New Member Spotlight

RMA Oklahoma Chapter welcomes its new **Associate** and **Institutional** members:

**Bob Scott** *American AgCredit* **James Finch** *Arvest Bank* **Tim Holt**, **Doug Tippins**, **Susan Briscoe** *Bank of Commerce* **Stacey Kymes**, **Robert Dudley**, **Christine McQueen** *Bank of Oklahoma* **Marlon Goodwin**, **Travis Wilhour** *Century Bank of Oklahoma* **Colt Brooks** *Citizens Security Bank* **James Bennett**, **Pete Dickinson**, **Roger Freeman** *First Oklahoma Bank* **Caleb Dupuis**, **Kari Walker**, **Rachel Breashears**, **Steven Phillips**, **George Clark** *First United Bank and Trust* **Steve McDaniel** *Great Nations Bank* **George Noe** *Midfirst Bank* **Michael Deeba** **Mike Deeba** *CPA* **John Allan**, **Dale Prevett** *ONB Bank* **Phillip Houchin**, **Mike Bezanson** *Patriot Bank* **Marcia Futrell** *Stillwater National Bank* **Travis Wilhour** *Century Bank* **Holly James** *University of Central Oklahoma* **Clayton Woodrum** *Woodrum Kemmendo Tate & Westemeir PLLC* **Patriot Bank**, **Broken Arrow** **First United Bank and Trust**, **Durant** **First Oklahoma Bank**, **Glencoe** **Great Nations Bank**, **Norman** **Century Bank of Oklahoma**, **Pryor** **Bank of Commerce**, **Yukon**



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## 2010-2011 Oklahoma Chapter Officer Slate

## Risk Management Commandment: Know Thy Customer by Tami Taylor

I recently had the opportunity to sit down and discuss the challenges of risk management for community banks in our current economy with Steve Abercrombie, a nationally recognized financial program presenter that has been on both sides of risk management – as a banker and a business owner. I asked Steve to share his perspective from both sides of the table. What follows are the highlights of our conversation.

**RMA: Steve, with several years in banking and even more in private industry, you've assessed risk from both the borrower's and lender's perspective. What would you identify as the most critical key to effective risk management in 2010 and beyond?** Tami, at the top of the list is the commandment I live and work by *"Know Thy Customer."*

The only way you can really know your customer is through higher quality and more timely information; and for banks that begins with financial communication. Working with clients every day, I still find that both bankers and borrowers make decisions today with the same level of information they used 30, 20 or even 5 years ago – and it's just not working. Financial communication is the core of creating a strong risk management culture. Your entire team, from the marketing department to the boardroom, has to understand that a higher level of communication is a bank-wide effort. This is true

**RMA: So, financial communication is the key to obtaining better information, seems like an easy fix. Why don't we do it?**

Both the borrower and the bank know they need to better communicate. They just don't know how to. Lenders speak in "banker" and customers speak in "business." The key is learning how to listen to the customer, taking time to understand their business model, and most importantly, learning how to translate complex financial concepts that you and I utilize daily into a language that business customers understand. Borrowers are concerned about communication as well, now more than ever. But for them, it's not only the how to communicate, but the fear to communicate. Banks have conditioned their customers for years to turn in their financials annually and call it good. Borrowers believe that you don't contact your lender unless there is a problem, and you certainly don't want to alert your lender to a potential problem before it happens. These habits and beliefs are hard to change. They don't know how to communicate with their lender and often choose not to until it is too late. The programs I have developed come from years of being on both sides of the table bringing together lenders and borrowers in a way that's non-threatening to both. The programs break down the communication barriers by not only teaching customers and bankers a common language, but also by removing the stigma that can prevent the conversation from happening in the first place. Reducing anxiety between both parties can be achieved through what I refer to as the '3 C's' – *communication, collaboration and commitment*. Everyone involved needs to understand the importance of communication and full disclosure.

**RMA: So, how often do you suggest that we as bankers communicate with our customers?** While I'm not advocating calling your customers daily, I do advocate having a system in place that facilitates solid, high quality communication. For many banks this can be the difference between a write-off and a new loan, a customer that was, and a customer that could be. Information exchange has to move at the speed of business. Think of all of the companies that experience weekly and even daily changes in their inventory, receivables and payables. How quickly does their cash flow situation change? How quickly do you as a banker need to know that information? The programs I use involve nothing less than scheduled quarterly financial reviews and include one-on-one coaching as needed. I'm not talking about a casual dialogue over lunch. The reviews and the coaching dig deep into the heart of what's going on with our customer's business. We cover the balance sheet, the income statement and the ratios from a management perspective. We also take time to learn what their challenges are, what their vision is, and how decision makers translate this into daily business management. We truly adhere to the first commandment of communication "Know Thy Customer."

**RMA: Do you ever run into challenges with obtaining this information?** Absolutely. You have to be prepared for the customer that doesn't want to admit what they don't know, as well as the customer that doesn't know what they don't know. And the challenges don't just come from the customer. Lenders and analysts often don't want to admit what they don't know about a customer's business, and consequently, don't ask. How do you work past that? How do you get people to open up? By focusing on them, all of them. Helping everyone clearly understand what can be done, and how they will benefit from this exchange is critical. An enlightened, collaborative partnership is empowering for both the bank and its customers. Bank customers don't want to be told how to run their business, so you don't tell them. Instead you provide them with the tools they need to better run their business – something no other bank has probably taken the time to do. Show them how to use the tools effectively. And, most importantly, help them develop a disciplined approach that can truly drive change in their business. Lenders want to know how they benefit from what appears to be a lot of extra work. So, make it clear that a solid financial communication program will make their lives easier and can help them identify problem credits early on. Lenders can use the same tools to better identify quality credits when prospecting and new borrowing needs with current customers. In addition, analysts receive better information to work with and can develop a deeper understanding of specific types of businesses improving loan structuring. Information beyond a NAICS code provides the analyst team with a more comprehensive set of solutions. And industry-specific education gives them the tools to proactively address potential problems with similar customers before they become a problem.

**RMA: So what we're really talking about is not just communication, but changing the way we communicate**

Very true. And for some banks, it's beyond that. It's a change in corporate culture. It's about changing the philosophy of the way you do business. If a bank is interested in incorporating a change to their communication systems or their communication culture, what do you see as their first steps? Step one, commitment. The bank has to be committed to ongoing communication – ongoing quality communication, that is. This has to start at the top, and for many, as I said earlier, requires a change in bank culture. Your board, your lenders, your credit team, retail team and yes, even your marketing team has to be committed to making it happen. The second step is education. It has to be internal first, external second. If your people don't believe in what you're doing and why you're doing it, you won't have the commitment you need to make it happen. Education includes equally the "whys" as well as the "hows." Equal to this is the understanding that success is a collaborative effort. The third step is to manage the process. Like any investment of time, energy and money you want to know what your return is. You need to determine what level of commitment you are willing to give to make this work. Whether you have a champion leading the process internally or a team responsible for ensuring its success, you have to have some method of managing and measuring your own success.

*Tami Taylor is a Credit Analyst/Credit Officer, AVB Bank, Broken Arrow, Oklahoma. She is the current Communications Chair for RMA's Oklahoma Chapter. Contact her by email at [ttaylor@bankavb.com](mailto:ttaylor@bankavb.com). Steve Abercrombie is an independent business financial consultant, with more than 20 years of banking experience as a bank president, lender and trainer. He is a nationally-known developer and presenter of financial programs for the closely-held business market and served as President of an international financial training and education company improving the profitability of banks, trade associations, and corporations in the U.S., Canada, Australia, and England. Some of Steve's past clients include American Rental Association, International Franchise Association, FTD, and True Value Hardware. Steve can be reached at [sja@whidbey.com](mailto:sja@whidbey.com)*