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Lessons In LENDING

Consumer lending: Then and now

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I have been in the consumer lending business for more than 35 years.

One would think that, surely, I have seen it all — amazing growth and dynamic change — during that time. To be perfectly honest, my perspective may interest many of you, particularly those who have been around for a while.

The biggest change relates to how the consumer obtains his credit today, versus the old days when a prospective borrower went to the local bank branch. I thought I should start off by looking back in history, which will probably stir up memories for those who remember the good ol' days.

What is always interesting to me is how people recall those good ol' days and say to me, "Remember when I didn't even have to fill out an application?"

Well, yes, actually I do remember. When I started out, we used a relatively small cardboard application filled out by the lender, not the borrower. When I think back to the way we completed the application, I recognize it would never pass muster today, for many reasons.

First, the borrower never even signed it. There was no disclosure about fair lending — a reference to invidious discrimination based on race, ethnicity, marital status, etc. — which today represents 80 percent of the loan application process. Instead of conformity, we completed the application in different ways.

Long time customers, whose families were well known, required less information, while newcomers to town required much more information and had to be handled more carefully. There was no credit score; in fact, there was no credit bureau.

Losses generally were less than 1 percent, and life was fine.

People also tell me, "I remember when I used to borrow money from George Wade" — a real person who was a gregarious, beloved veteran loan officer who worked for CNB when I was just starting out — "and he would always try to get me to borrow more."

Ha! They get quite a kick out of those memories.

Still others recall, "I never even had to sign a promissory note when I was dealing with George."

Well, that I don't remember, but who am I to crush a long held, pleasant memory?

I can assure you that we did require a signed note, but the process was pretty simple compared to today's paperwork grind. We certainly didn't need to spend much on marketing in those days, because people in town knew George was the man to see.

Over the years, even loyal borrowers whose fathers had told them to go to the bank whenever they needed money, started to get their financing elsewhere, primarily due to convenience.

Mortgage borrowers found their financing right at the Realtor's office and car buyers found financing right in the auto dealer's office, no longer needing to go to the bank.

Even if borrowers needed to consolidate bills, they could do so by just filling out a simple application for a credit card right at the kitchen table. Consumers also were better educated in financial matters.

The days of consultative lending gradually gave way to faster, more efficient ways to obtain money. Losses occasionally reached 4 percent, but that still wasn't too bad.

Although people, indeed, were better educated in finance, some initially found easy credit to be a wonderful experience, wherein saving money gave way to borrowing on a whim for whatever was needed — new cars, jewelry, vacations. Unfortunately, such easy credit became a very heavy burden, particularly during periods of recession when job losses or pay reductions turned households upside down. People who always had "good" credit faced collection calls, judgments and, occasionally, foreclosures and the loss of their home. Losses, particularly credit cards, started to grow to as high as 6 percent but,for the most part, were still manageable.

Fast forward to 2009: Where are we today? What in the world happened? Relatively easy credit gave way to reckless lending motivated by greed. Long held underwriting principles were cast aside so that a few more points could be earned and ever higher commissions could be paid.

As if that wasn't enough, out and out fraud reared its ugly head: Innocent consumers became victims world wide, and not for profit charitable organizations lost their total endowments.

It seems we have not learned from our mistakes. In fact, our country is now experiencing the worst financial crisis since the Great Depression. I know you don't need to hear the statistics, because you read them every morning in the newspaper or hear them *ad nauseum* on television or radio. Clearly, the simple days of George Wade and the consultative lending style are gone forever. That shouldn't rule out common sense, and a process whereby loans are approved based on the fundamental basics of credit underwriting, and saving is encouraged and rewarded so

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that, when the time comes for a major purchase, a down payment of one's own cash is combined with a loan so that we actually have some skin in the game.

Where do we go from here? Hopefully, the current tragedy will set the foundation for a return to some old time values, when you purchased a washing machine for the value that it offered, not because you didn't have to make a payment for 12 months, or when you purchased a car for the value it offered, not because you could get 0 percent interest for 60 months.

While we are at it, let's eliminate the greed that has seeped into our world, where a CEO negotiates his salary, bonus and severance package all at the upfront meeting, or stock options are awarded for short term initiatives with virtually nothing to do with a company's long term value proposition.

Perhaps I ask too much. As the Rochester Region's only local, community owned, full service financial institution, rest assured this is not, and never has been, the case at CNB.

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