High-Impact Credit Training Blog

Credit Risk Training for Bankers: The Robust Response to Aggressive Federal Regulation

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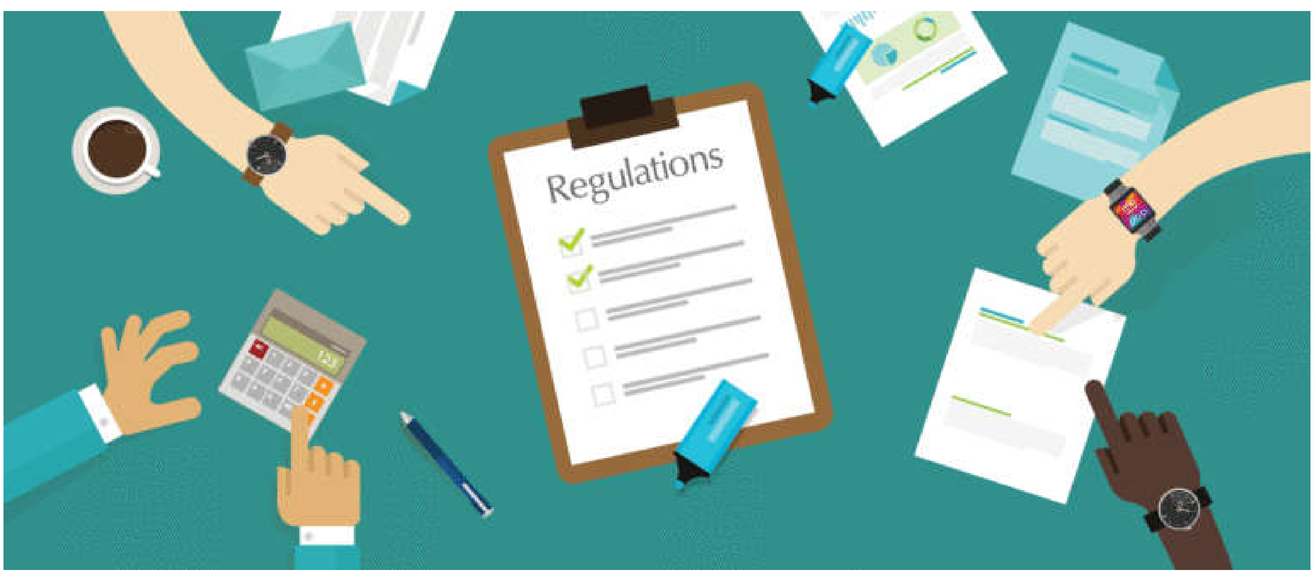

With the economy maintaining positive growth and banks relaxing lending policies to facilitate economic development, regulatory agencies respond by implementing additional lending rules. Over the past several years, there has been a rise in the number and complexity of bank regulations. That has increased costs of compliance to avoid those associated with noncompliance.

Indeed, banks and their credit professionals are facing increased enforcement actions as Federal regulators propose or implement new rules almost daily. A visit to regulatory agency websites that conduct bank oversight or consumer protection provides proof of growing banking industry regulation. They also show increased enforcement actions, particularly surrounding UDAAP in credit transactions about which news media and trade publications report regularly.

What makes federal compliance more complicated is the number of agencies involved. Often, like many federal agencies, these organizations don't work together or maintain reciprocal relationships for information exchange. Consequently, commercial banks receive multiple, uncoordinated documentation and information requests at the same time from different agencies. Those can involve costly resource investment dedicated to providing nearly identical information to different agencies to satisfy compliance checks. Not only do growing regulatory schemes place increased burdens on banks, but they can also reduce commercial banks' ability to serve customers efficiently and profitably.

Federal regulator's objective, of course, is to protect bank customers and reduce the likelihood of an economic meltdown like the one in 2008. Since credit risk doesn't remain static and, in fact, increases when banks are lending at higher rates to meet demand, such oversight and regulations are bound to surge.

As Controller of the Currency, Thomas Curry asked in a speech last year before the Risk Management Association's Annual Risk Management Convention, in Boston, "What will it take to ensure that banks remain solvent, stable, and secure in their role in the payments and credit system?"

His contention, like many federal regulatory agency leaders, is banks can help preclude future meltdowns by taking steps today to address rising credit risk. One critical way to confront credit risk is through investing in ongoing, robust credit risk training for bankers. While some banks are cutting back on this training, it's not advisable as regulation and risk grow.

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Similarly, there are multiple advantages to this training that should make the decision to invest in it for your bankers easier to make. These benefits extend beyond alleviating regulatory pressures. Here are several.

- **Increased ability to manage the regulatory environment**. Your bank's leaders have numerous duties to fulfill each day. One of those is, of course, staying current on, and applying properly the myriad regulations promulgated by federal agencies. Credit risk training that follows a specific model and provides a structured framework is most beneficial to your professionals. It can help them stay ahead of regulatory changes and manage them effectively as they occur.

- **Reduced risk of mistakes that lead to regulatory violations**. Properly trained bank personnel make fewer costly mistakes that can lead to violations and enforcement actions. They learn to understand financial principals and the comprehensive loan process, including completing paperwork professionally and correctly. That helps them manage risk as well as spot and avoid situations and processes that lead to errors or poor lending decisions. They also can learn how to respond properly to bank regulator requests and increased accuracy in completing those and other lending requirements also reduces costs to the bank.

- **Enhance employee satisfaction and talent retention**. Like for most highly-skilled roles today, there is a talent gap for credit risk managers, bankers, and lenders who are skilled in managing credit risk. One reason is a lack of educational or training opportunities for these professionals. Your bank can address this talent shortage and increase employee engagement. You can do that while showing your employees you value their contribution to your institution by investing in their professional development. Employees who feel competent exercising the duties of their job are more satisfied with their roles and employers. Increasingly advanced credit risk training also gives you more confidence in your personnel and makes you willing to promote them into more accountable rules. That reduces the workload on other employees and increases overall employee satisfaction. Moreover, the more opportunities for growth you provide to your bank professionals through effective credit risk training, the more likely your bank will retain that talent.

• **Stronger internal lending policies that reduce credit risk.** Robust credit risk training helps your bankers gain a clearer understanding of how various aspects of the regulatory framework affect your institution. It also provides opportunities for your professionals to gain increasingly advanced understanding of financial principals, lending techniques, communications strategies for both customers and internal personal and credit risk decision management. By being able to apply a variety of new or enhanced skills to your lending process, you can develop stronger internal policies and procedures that reduce credit risk and potential enforcement actions.

• **Increased operational efficiencies.** Effective credit risk training aids your commercial bank in creating repeatable, streamlined operational processes based on best practices in credit risk management. Training that is customized to your bank's operations and based on its case studies can facilitate its lending process by eliminating weakness and expediting the approval process. Your bank can have your personnel retrained on your bank's current procedures using tools with which they are already familiar with. That way, they can apply their newly acquired credit risk management skills quickly.

• **Enhanced and ongoing competitiveness.** Customers experience banks with highly knowledgeable credit management personnel as more professional, efficient, reputable and competent at managing their lending needs. Those banks reduce the negative reputational effects that poor regulatory compliance which leads to enforcement actions reported online by regulatory agencies and consumer complaints have. Banks with strong reputations and excellent customer service maintain their competitive positions over those experiencing challenges in those areas. Credit risk training can ensure your bank remains compliant, competitive and profitable.

By implementing and maintaining a robust credit training program, your commercial bank can mitigate the effects of increasing and aggressive regulation has on its daily operations and personnel. If you conduct these activities in a manner that creates a credit risk management culture, then bank-wide accountability will further reduce risks of compliance violations.

This will lead to reduced pressures from regulatory agencies and enhanced employee experiences that will be passed on to bank customers, increasing their confidence in your institution. Your credit risk training should be customized to you meet these objectives for your bank while providing all the benefits identified above.

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