Institutional Knowledge

New financial calculator:	$50.00
Box of pencils:	$5.00;
CECL software program:	$15,000
Institutional Knowledge:	PRICELESS

Community based financial institutions are a tremendous asset to the areas they serve. Typically, the financial institution is a pillar of the community through the volunteer hours of the staff, financial contributions to local organizations and professional expertise. Business bankers in these communities work closely with their customers to understand their financial needs and help them plan for a successful future. Many times, the banker and business owner have additional shared interests within the community that furthers the professional and personal relationship.

The knowledge gained in working with business owners in various contexts provides a further understanding of the individual and their business. This knowledge can be very instrumental in how a financial institution chooses to provide additional services and credit to a customer.

This information that is compiled within individuals over time is known as institutional knowledge. Institutional knowledge can be defined as "the combination of experiences, processes, data, expertise, values, and information possessed by company employees. It can span decades and comprise crucial trends, projects, perspectives and that define a company's history."[1]

This information is often difficult to quantify but can be significant when considering a credit request. Impromptu conversations take place during Little League games or after Sunday service. Real information regarding the business and business owner is gleaned in these conversations and adds to the banker's knowledge and understanding of the business. Over time, a significant amount of information is gained in both scheduled and unscheduled conversations with the business owner. This understanding of the business owner and their business makes the banker an even greater asset to the financial institution as they retain and further develop these relationships.

These relationships also come with their challenges, as many times customer files are not updated with formal or informal call notes. CRM systems which capture call notes are either not in place or may be inconsistent in their use. Key information regarding a business borrowing relationship may only exist in the mind of the banker who had the conversation. Although many times a secondary contact has a certain level of familiarity with the business borrower, a lack of documented call notes and a memorialized history of the relationship can place the financial institution at additional risk should the banker no longer be employed with the institution.

Credit requests/presentations sometimes provide limited insight into the nature of the business, key changes within the business, and the near-term outlook for the business. This limited information is not for a lack of knowledge regarding the borrower. Generally, it is quite the contrary. The banker, the loan

[1] Institutional Knowledge: What It Is & How to Use It, Kristen Craft, May 3, 2019
https://tettra.co/article/institutional-knowledge-what-it-is-how-to-use-it/

committee or the board of directors have such a knowledge regarding the borrower, that fundamental information regarding the borrower and their business is overlooked in the credit presentation. It is assumed everyone is familiar with the relationship. As a result, credit presentations suffer and do not accurately reflect the financial institution's knowledge and understanding of the borrower.

A credit presentation is an important tool in the credit process to capture the relevant data and institutional knowledge regarding the borrower and their financial needs. The credit presentation is also a reflection on the overall financial institution and their credit culture.

My friend and colleague, Gary Maples of Riveredge Consulting, LLC, has developed a course for the Wisconsin Chapter of RMA titled, "Essential Elements of a Credit Presentation." In this course, Gary teaches the objectives a credit presentation serves within a financial institution. The course includes a high-level summary of the purpose of credit presentations. They include:

- Credit presentations are for many audiences and several purposes
- Credit presentations are not just for the relationship manager
- A major purpose of a credit presentation is to inform those who have the least knowledge of the borrowing relationship and its risk.
- A poor-quality credit presentation is often indicative of poor-quality credit risk administration.

Institutional knowledge of credit relationships is priceless and difficult to fully memorialize. Underwriting software programs have improved the ease of use to carry information forward from prior presentations to make updating the data more efficient. Credit presentations should include sufficient information regarding the borrower and the credit request, (based on the size, complexity and risk rating of the relationship) to meet the needs of the various stakeholders, examiners and auditors Complete credit presentations can further minimize risk to a financial institution as key information is; captured, presented and discussed at the appropriate levels.

Finally, on a lighter note, as the NFL season is just around the corner, the following is a hyperlink for a Brett Favre Mastercard Priceless commercial.
https://www.youtube.com/watch?v=ZoEGYFzS0jA

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