



Credit Risk Ready Podcast

Host Linda Keith, CPA, With Laurie Stewart
***Awareness and Action Spurred by
#BlackLivesMatter***

Hi, this is Linda Keith CPA with Credit Risk Ready, a podcast where we interview senior credit and lending professionals from community financial institutions across the United States, their regulators and banking advisors, to better understand and mitigate credit risk. In this episode, we'll take a credit risk detour that's actually not a detour. As the policing and health fields struggle with the impact of systemic racism, both in trying to understand or define it and then making meaningful change, we turned our attention to how banking needs to respond.

My guest is Laurie Stewart, President and CEO of Sound Community Bank, a \$717 million bank in Washington State with a presence in the city and in the country, Seattle, and the Olympic Peninsula. She served on the FDIC Advisory Committee on Community Banking, the CFPB Community Bankers Advisory Council, and she currently serves as the Chair of the American Bankers Association.

Glad to have you back, Laurie.

Laurie Stewart:

Pleased to be here, Linda. Thanks for asking.

Linda Keith:

Yes. Before I actually start this session, I just need to put us in a place in time, because not only are we dealing with the COVID-19, the pandemic recession, but we are now I think at three, possibly the fourth, week of civil unrest across the country because of the killing by the police of George Floyd. We have had disruption. We have had peaceful protests. There have been some that have not been as peaceful.

This is coming in right on top of some major issues in banking, and yet it itself is a major issue in its own right. Laurie, you recently issued a letter in your role as Chair of the American Bankers Association about the need to address issues of racism in the banking realm and advocating for diversity and inclusion.

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You're joined in this by the presidents of at least two federal reserve banks. Help me understand what role the impact of historical and current racism plays in banking and, more specifically, in credit risk.

Laurie Stewart:

Linda, I think we don't know the answer to that. I think we haven't listened carefully enough. We haven't embraced diversity, equity, and inclusion broadly enough, and we don't know enough about communities of color to recognize what we could do better. So, while I can't fix policing in cities, I can't ensure social justice, I can be passionate about those topics. I can impact the communities where we do business, how we write loans, how we recruit employees. I think that's where we have to start.

Linda Keith:

Right.

Laurie Stewart:

We can't give lip service to diversity. We have to understand that it's broken. I don't think we've been honest about that in the past. I'm hopeful that the things we do well... Bankers do a great job of educating. We do that in the communities. We participate in the communities we serve. We serve on not-for-profit boards. We support education. We're all the time talking about financial education and financial literacy.

I think there's an opportunity there for us, but I also think there's an opportunity to do a better job of being candid and not being afraid of the "race" word.

Linda Keith:

Yep. Do you think it's partly because we maybe don't... and by "we", I'm going to say banking generally, White, Black, Brown, whatever. So the "we" is not the White people or the Black people, but the "we" is we in leadership in banking. Do you think it's because we suspect that we haven't done a great job in countering whatever racism is still creeping into lending decisions or anything else in our community for that matter?

Laurie Stewart:

Yeah, I think it's that we don't recognize in ourselves what might be unconscious bias or might be very conscious bias. I think we have to start there. We have to be more honest and a little bit harder on ourselves as opposed to saying, "We're doing all we should do for CRA, we're supporting our communities, we're the good guys." We've just been slow to change the diversity of our own organizations.

Linda Keith:

Right.

Laurie Stewart:

I'm still one of very few women to run a bank, right? That's an unusual role. I'm only the third woman to chair 145 years of the American Bankers Association.

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Linda Keith:

Right.

Laurie Stewart:

So part of that challenge is boards and people understanding that it's okay if the person you pick or you support doesn't look like you. We have that job to do with all kinds of diversity. As bankers, we can step up and do it.

Linda Keith:

Right, right. You and I both have experienced breaking into a field when we were one of only few women in a whole room of a hundred males. In my case: public accounting. In your case: in banking. So in a way we have a little bit of lived experience that gives us an insight that maybe not everybody else has.

Laurie Stewart:

I think that's true. Again, I think that piece of listening and sharing experiences and being open, being your true self. I didn't use to like to tell that I was the first person in my family to graduate from high school; I had a lot of shame around that. But I've learned that if I can be my real self and share that story, that can help other people aspire.

Linda Keith:

Right.

Laurie Stewart:

So what I maybe was hiding could really be a motivator. I think systemic racism has a lot of this, too. We have to be open to listening to people's genuine, real stories. We haven't been that way before.

Linda Keith:

Yeah. In some of the things I've been reading about, specifically Black men, who whenever they're out walking, they're aware that they might be frightening for a White woman who's walking, right? That they have to be aware of that all the time. I just thought, geez, Louise, that's such a burden. Actually, I disrupt that a little bit because I always say "hello" to people I pass. When I say "hello" to someone who happens to be a Black man, usually they're startled because they were trying to blend into the background. Here, I'm saying "hi" and they're not quite sure what to do with that.

Laurie Stewart:

Yeah. I totally relate to that story because that's my style, too. I smile and greet everybody. Pat their dog and get in a conversation. But I agree, that burden that a Black man carries, and now a Black man in a mask during the COVID pandemic, it's huge. Think about that, if we had to carry that kind of a burden.

Linda Keith:

Right.

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Laurie Stewart:

But knowing that just changes your reaction to the person on the street, right?

Linda Keith:

Yes, it really does. There's a bias that I talk about all the time in credit analysis training and it's confirmation bias. Usually in my training, it comes up because somebody jumps to conclusions too soon in the global cashflow analysis. They either already think the customer is a good one, so they aren't looking as closely for what might be negative, or they see something like revenue's dropped and they assume the business is doing poorly, and don't even consider that maybe it's just a cash-basis tax return.

So I really counsel against them jumping to conclusions too soon, but confirmation bias also will come into play if you have any maybe undiscovered racist tendencies yourself and you're assuming because someone comes in with a different skin color or hair or whatever, you're making some assumptions maybe. Once you have triggered confirmation bias, it is a hard fight against your brain to recalibrate and say, "No, I need to wait and see what the situation is, rather than bringing some assumptions to the table."

Laurie Stewart:

Yeah. That's excellent, and boy, to the degree you can train and help people identify that, that's fabulous because we all have it. Right?

Linda Keith:

Of course.

Laurie Stewart:

We get that conclusion based on our past experience or something we think we know, or because we banked that sector a long time and we think we know all the answers. Yeah.

Linda Keith:

It's a little easier in credit training, because what I train them to do is when they start to think, "Ooh, that looks bad," I train them to change that to, "Oh, that's interesting. I need to understand it better."

Then the other thing I trained them to do, because we are humans and we will jump to conclusions, is I teach them for almost everything that looks bad, I give them an example of it might be fine.

Laurie Stewart:

Right.

Linda Keith:

So that if they do realize, they catch themselves going, "Oh my gosh, revenue's down, the business is in trouble. Oh, or maybe it's cash basis. Let me check." As soon as I can reverse the confirmation bias, I think we sort of neutralize it. So people just have to be aware of those biases. Now we take that from credit analysis into, not only race, but if you've ever read *The Millionaire Next Door* book, it talked about

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how so many millionaires don't look like millionaires. They don't dress that way. They're driving their truck and they don't have the Rolex. In fact, the ones who do look like millionaires may be in debt to their eyeballs.

So it's the same idea. You cannot see what kind of truck they're driving or the clothes they have on, or the color of their skin, and jump to any conclusion, either direction. Either direction. It's a hard lesson to learn for newer folks.

Laurie Stewart:

Yeah.

Linda Keith:

Laurie, and I will tell my listeners, I asked Laurie if I could talk about this ahead of time, because it is an elephant in the room. When talking about racism in banking, the elephant in the room, in my opinion, is the past and now-illegal practice of redlining. When our Black veterans came back from World War II, while they also had the GI bill to help with obtaining a mortgage, redlining meant they did not have the same opportunities. In some cases, that still may be playing out in their families several generations later. So Laurie, what responsibility do bankers today have for understanding or addressing past practices?

Laurie Stewart:

So we can learn from history, right?

Linda Keith:

Yes.

Laurie Stewart:

We have a whole crop of bankers now that don't even understand the history of redlining and why we have CRA.

Linda Keith:

Right.

Laurie Stewart:

Certainly some of these regulations need updating for the current era and the way we do business, but it's important to recognize why we had to regulate this issue. Then bring it forward and say, "What does that mean today? Are there still neighborhoods we're not supportive of? Is it because of redlining or is it because we just don't understand that culture, or that community, or how they do business? Or are they under-banked and they don't have the capacity to meet the standard traditions of credit metrics?"

Linda Keith:

Right.

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Laurie Stewart:

I think we have a huge opportunity now to think about how do we structure credit differently? I've started to see that just in the last few years, talking about the under-banked or people who don't have confidence in banks, right?

Linda Keith:

Yeah.

Laurie Stewart:

They haven't even used banks, so that makes them two steps behind instead of just maybe one.

Linda Keith:

Right.

Laurie Stewart:

Or maybe had a credit issue and how did they repair it? Are we relying too much on old credit problems as opposed to a current environment? So I think we can make a difference if we study history and then we try and again understand our communities. Then I'm going to say it again. I've said it before. We have to have more faces that look like the communities we want to serve, because of just what you described earlier, that young Black man might not relate to me talking to him about credit, right?

Linda Keith:

Right.

Laurie Stewart:

That just might not be comfortable for him. So we have to find the mechanism, whether it's electronic or, again, more faces of color or more diversity, to have a conversation of equals. I'm really focusing my conversations in our bank on diversity, equity, and inclusion, and focusing on that equity piece, too. I want equity to mean that every single employee, every single client, every single small business, feels like they have the same access and opportunity. That they are the same as, they are as good as, they can be listened to as much, because it doesn't do any good to have diversity. I can fill my organization with faces of color and various populations and support all kinds of folks with good medical care. But if some of those people don't have the same voice, I haven't accomplished anything.

Linda Keith:

Right, so it sounds like as a leader not only do you need to institute this, but you have to really have your ear to the ground as to whether it is really the lived experience of the people there, not just something that's a policy or a guideline.

Laurie Stewart:

Exactly, Linda. We have to have the hard conversations. "What is working? I'm listening. This is a safe place. You can tell me if it's not working." We're working on that every day. "Tell me what doesn't make this a safe place to have a candid conversation."

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Linda Keith:

Of course, this is top of mind right now. In part, because of what's happening in our nation. I'm linking to a book by Jarik Conrad down in the show notes, it's titled *The Fragile Mind*. It's a fascinating book for all readers to better understand racism past and present. Jarik and I served on a diversity and inclusion task force. Notice the word equity wasn't in there, so I'd want to think about that, but a diversity and inclusion task force when we were on the board of our professional national association.

We did some good work, made some changes; we not only identified what we actually already felt and believed, but put it in writing in all our committee areas, so that we make sure that people thought about it as they went about the work that we had our volunteers doing. Two years later, when I became chair of the editorial board for the association's magazine, I was shocked to see that the diversity and inclusion language, which we created to be in each committee's guidance, just wasn't there. When I asked the staff about it, they'd never heard of it. They'd never heard of it.

We thought we did this good work, and somehow it just went by the board. So my question for you, Laurie, how do we create lasting change that pervades our financial institution's culture and practice?

Laurie Stewart:

I think it's in what I talked about earlier. I think it's including equity and making it systemic change that we can see the differences.

Linda Keith:

Yeah.

Laurie Stewart:

Because otherwise it's about quotas, and numbers, and percentages, and what I can put on the blackboard. And it looks good, at the time. Like any initiative, what we record gets our attention and we achieve a number, and then we're onto the next shiny object.

Linda Keith:

Yes.

Laurie Stewart:

This one's not going to be a shiny object. This one's going to be hard. We have to recognize it's going to be hard, and then we have to invest in it.

Linda Keith:

We have to do it anyway.

Laurie Stewart:

That's right.

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Linda Keith:

I would just love it if 30 years from now, nobody has to be having this conversation still, or again.

Laurie Stewart:

You and me both.

Linda Keith:

Yeah. To wrap us up, Laurie, my work is primarily with loan originators on both the lending and the credit side. That's, I think, on the pointy edge of the spear; it's where the loans get made. It is where the decisions that can disadvantage people of color or treat them equitably. So what can bank management do to instill in the front line fair and equal treatment? What would you say directly to your frontline in lending and credit to impact those loan origination decisions?

Laurie Stewart:

One of the things that brings me some comfort is the number of loan applications that are now made electronically. So we're almost colorblind, right? I think that will serve us well and better, especially on the consumer side and the very small business side. Again, I get back to the fact that we have to identify what makes us afraid if somebody doesn't look like us, and how can we get over that fear, and how can we recognize we have bias and tackle it, right? There are all kinds of things I'm afraid of. I'm afraid of driving in the snow. So I have to have a conversation with myself when there's snow, and say, "Okay, you can do this, and this is what you're going to do," and da-da-da-da. I have to work myself up for that.

Linda Keith:

Right.

Laurie Stewart:

We have to treat the systemic racism the same way. We all have some racist tendencies. We all have some biases; not one of us is perfect. How do we own that, and then address it or overcome it?

Linda Keith:

Right. I think even people who they don't feel that they're racist, they could think of something that they actually do know they react to. I will cop to the fact that a nose ring in the middle of a nose, I react to that. I just do, so I apologize to any of my listeners who have nose rings. So when I see someone with that particular jewelry, I recognize it and I immediately have to just change my thinking and almost say, "But that's not important," or "That doesn't matter," because I notice that one. I don't notice racism and it could be in part that I grew up in Orange County in a much more multicultural area than here. So I have a lived experience that tells me that skin color isn't always the factor.

Laurie Stewart:

Right.

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Linda Keith:

But even if you don't think you're racist, I'll bet you could think of something that would give you an impression that you'd have to sort of fight against and recognize that racism may actually be in that list, too.

Laurie Stewart:

Yep.

Linda Keith:

Laurie, thank you for being willing to talk about the elephant in the room and maybe an issue that is going to be actually harder for us to deal with than COVID-19 and the pandemic recession. Because this one is not going to be a short dip and back up: this is going to be a sustained effort to be fair with our borrowers and our communities. So thank you so much for sharing.

Laurie Stewart:

I 100% agree with you.

Linda Keith:

Thanks for joining us on the Credit Risk Ready podcast. Subscribe, comment, or share on social media to stay connected and spread the word. Join me next time as we bring our bank, our customers, and our communities through the recession, safe and sound. Take care.

About Laurie Stewart

Laura Lee (Laurie) Stewart, president and CEO of Seattle-based Sound Community Bank celebrates more than 30 years at the helm of Sound Community Bank. In that time, she led the conversion of the organization from a \$38-million credit union to a commercial bank which grew to be more than \$717 million in assets.

Stewart maintains a long history in community banking and participation in industry affairs. Stewart currently serves as the chair of the American Bankers Association, representing the nation's \$18.6-trillion banking industry and the employment of more than two million workers. She also holds a position on the board of directors for the Federal Reserve Bank of San Francisco's Seattle branch.

Previously, Stewart served as chair of the Board of Directors of the Washington Bankers Association (WBA), where she helped create the WBA's Executive Development Program. In addition, Stewart was one of 14 bankers selected to serve on the inaugural FDIC Advisory Board in 2009 and, in 2012, she was named to the Community Bank Advisory Council of the Consumer Financial Protection Bureau.

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In 2019, she was named Community Banker of the Year by American Banker and received an Executive Excellence award from Seattle Business Magazine. American Banker also named her as one of its Most Powerful Women in Banking in 2011, 2015, 2017, 2018, and 2019.

Sound Community Bank
<https://www.soundcb.com/>

About Linda Keith

Linda Keith CPA draws on her 30+ years of experience consulting with and training lending institutions, background in public accounting, 15+ years as CFO of the family residential construction company, experience as an Examiner with the Washington State Auditor's Office, and as adjunct faculty in Accounting Principles and Managerial Accounting to help lending and credit professionals say, "Yes," to good loans.

Of course, you know those are not consecutive years or she'd be over 100 by now!

Linda is known by her clients to be both practical and funny. In fact, there is a move afoot to change the 'P' in CPA to stand for 'Playful'. The fact is, people absorb ideas and learn better when they are having a little bit of fun. So, Linda brings the fun along with her practical knowledge and depth of understanding to provide credit analysis training and presentations that make a difference.

She is the founder of [Lenders Online Training](#), a virtual classroom approach to improving tax return and financial statement analysis capabilities; the host of the [Credit Risk Ready Podcast](#); and a [consultant/trainer on credit risk](#) to banks and credit unions across the country.

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