



Credit Risk Ready Podcast

Host Linda Keith, CPA, With Mary C. Kelly

The Six Stages of Crisis: Where is Your Borrower Stuck?

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 will help you identify a borrower in crisis. Do they know they're in crisis? What stage are they in? Where are they stuck? How can you help them get unstuck? You can use this diagnostic approach for loan prospects as well. If a prospect is stuck in stage one or two, perhaps this is not the best time to bring them into your bank or credit union.

To help us with this diagnosis, the doctor is in the house. Dr. Mary C. Kelly is a retired commander in the Coast Guard, a former chief of police, and the author of 13 books on business growth, leadership, and today's economy. And yes, she holds a doctorate in economics.

Thanks for joining us, Mary.

Mary C. Kelly:

Linda, I am so excited to be with you and your audience today.

Linda Keith:

We need you because we need somebody who really understands crisis, but then can turn that into "What should a business do about it?" I am familiar with the stages of grief and your stages of crisis are similar, but this time, we're going to apply them to a business or individual borrower in challenging circumstances.

Could you run us through the six stages, briefly describe them, and then give us the clue that tells us that is where a borrower is stuck?

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Mary C. Kelly:

Well, most of your lenders have probably progressed pretty quickly through the first four stages of any crisis challenge or change. That's what it's all about. Stages five and six are focused externally on the customers. That's, again, where most of your lenders have been for the past year. Partly because there were so many opportunities for them in the past year to get beyond just their own myopic perspective. That's not a bad thing.

When we talk about the six stages, it starts with rejection. "It's not that bad." "It won't really affect me." "It won't really be a big deal." "I don't really have to worry." All of a sudden, we get from there, the rejection phase, into the recognition phase. "Oh, I have to work from home." "Oh, my kids are going to be home for a while." "Oh, maybe my spouse or my partner is also in the house." "Oh, maybe buying a tiny house wasn't the best idea this month." All of a sudden, you recognize, "Hey, this situation is real and we, maybe, have to make some changes. We have to do something about it." Then you get into the realization phase. This is where people say, "Aha! I have to be a better leader both at home and at work." "My family needs more of my time." "Maybe I need new technology to make things happen?" "Maybe I was dragging my feet on the DocuSign or getting something like that so I could use it at home and now I kind of have to do it." Or, you know, "Maybe I wasn't really comfortable using scannable apps before, but now I have to."

Linda Keith:

Exactly. I didn't have a printer. It didn't matter. But now if I don't have a printer, it does matter.

Mary C. Kelly:

It does matter. All of a sudden, you realize you've got to configure your home for your office not just for a week or two. In the short run, people will say, "Oh, I'll just go down to Kinkos or Staples, or I'll just go run back to the office." Then people realize, "I can't go to the office. The office is shut down. They are not letting us in. They are worried." Then all of a sudden you realize this is going to last not just for a couple of weeks or a couple days, but months and then years. A year ago, people were saying, "Well, gosh, it's not just that bad. It's just maybe a virus. It's not that bad." Then it started killing people.

So, that realization phase is again, very protective. Your instinct is to protect your family, your kids, your business, your livelihood, your career. It's very myopic. The fourth stage is resolution. "We can do this." "Let's do this together." "We've got this." Very supportive.

Well, those first four stages tend to be... Think of the Old West. You know, circling the wagons to conserve the fire and the warmth for everybody. Very much protective. Protecting you. Protecting your family. Protecting your kids. Very instinctively protected, these first four stages, as uncertainty sets in.

Linda Keith:

Isn't that fourth also pretty cooperative? That whole vision of circling the wagons. It's like, "We're going to help each other. We're going to help our vendors. We're going to help our lenders. We're going to help our businesses." It's almost a Kumbaya moment in the middle of the whole thing.

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Mary C. Kelly:

Yes. That's the issue is many people say, "Okay. As long as we're helping each other, this is okay." Then they stay there, Linda. That's the problem. Once they get stuck in stage four, some people never get into stages five and six, and stage five is the new reality.

So, the new reality is thousands of details moving forward in our businesses will change. Period. It's not, "Oh, my gosh, is it going to change?" It's changed. So, guess what? It's forced acceleration of change. You have to change along with it. The leaders are excited about the new reality, even though it was brought on by a set of unfortunate circumstances. Leaders are excited about change and they embrace the change.

In the Navy, we used to say you can swim with the tide, you can float with the tide, or you can swim against the tide. I tell my leaders, "Floating with the tide is passive. It'll probably get you to shore eventually, but it's not a really good plan. Swimming against the tide is just dumb. If you swim with the tide, you can kind of keep up. I need you to get out ahead of the tide. I need you to be surfing that wave."

That's where leaders get into the new realignment phase. The new realignment is stage six. That is where I need your audience to be thinking about, "What needs to change for me to move forward in my business? What kind of strategic planning do I need to be doing? How can I better support my customers with their goals? What do I need to do to make it easier for people to get the loans they need to build their business? How can I get ahead of the wave?" It's all about being very, very proactive. Very, very focused on your customers and their customers, instead of on your own needs and your own business. Does that make sense?

Linda Keith:

Well, it does. What's interesting to me is I'm a kayaker. So, I'm right out in the water with you. When somebody capsizes, and you're with them and you have rescue capabilities, your first thing to do is go rescue them. But then you guys need to move on. There are things you learn, like don't let go the boat, for example, it'll get away from you. But I'm picturing this, sort of, the rescuer and the rescuee. If the rescuer is the lender, first of all, they need to know how to recognize that the borrower is in trouble and have some skills and knowledge to help them. But, secondly, as soon as that borrower is back in their boat, they both need to keep making progress to shore. The lending professional needs to get ahead of their own wave, while they are helping their business borrowers and their complex borrowers get ahead of the waves that they have been overcome by.

Mary C. Kelly:

That is exactly right. They've got to change their strategic plan for how they are outreaching to their customers. What do your customers need now from you? What are your customers' customers asking of them? That's really where I think the lender's sweet spot is. How can I support my customers, not just with the standard things that we normally expect, but how can we support them support their customers?

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Linda Keith:

Right. I think part of that is asking good, insightful questions that help the customer think about the stage that they might be in and actually help them move forward. So, just the question that you mentioned when you were talking about realignment, “What needs to change for me to move forward in my business?” Change ‘me’ to ‘you,’ and that’s a beautiful question for our lending professional to ask their business borrower. “What needs to change for you and your business to move forward now?”

Mary C. Kelly:

Right. Part of it is just picking up the phone and, “Hey, Joe Bob. I just wanted to ask what kind of challenges are your customers having right now?” “Hey, Joe Bob. What’s going on day-to-day at business for you right now?” “Hey, Sally Sue,” I just came from Texas so everybody’s got two names. “Hey, Sally, Sue. What needs to be changing for your leadership team so that you can better serve your customers?”

How are they being impacted in the long run? In the short run, we can get through the short run easy. You know, you’re out for a good kayak and get a little twinge in your arm. You’re like, “Oh, that hurts, but it’ll pass.” For a lot of people, they think it’ll pass and then, all of a sudden, they realize, “That twinge in my arm was a shark that came up and bit my arm off.” Okay? That’s not going to pass. But the idea is we’ve got to be proactively reaching out to our customers. It’s not about customer service. It’s about customer serving. It’s about us taking really great care of the businesspeople we work with when they need it the most.

This is when a lot of businesses are feeling – businesses can feel – vulnerable about where they are, what’s going to happen in the future, and what they’re going to need. Frankly, when people feel a sense of scarcity, or they’re worried, or there’s uncertainty, they tend to not spend money. They might be hesitant about borrowing money. They may just want extra cash on hand to feel secure about where they are. They may be coming to you and asking you, “Hey, I’m going to need a loan and I’m not even sure why.” They just need to talk things through. I think lenders, because they get to see so many different kinds of structures, sometimes they’ve got some really great ideas on, “Hey, this is what some other people are doing.” “This is how they’re structuring this.” “This might be helpful for you.” I think this is an awesome time to be a lender because the opportunities are there to do real customer serving.

Linda Keith:

Well, and I wonder if sometimes some of our borrowers might be feeling uncertainty because we just haven’t reached out to them yet. They’re not sure. Are we going to restrict their line of credit? Are we going to be there when they need to expand? What if they’re in pretty good shape, there’s another similar business in town that actually is ready to go out of business, and they have this great opportunity to expand. “Are my lenders going to back me up?” We don’t want to add to their uncertainty by not even reaching out to them and having that conversation.

Mary C. Kelly:

You’re absolutely right. A lot of your lenders, because they’re smart with money, I think they’ll understand this analogy. Thanks for mentioning that my PhD is in economics. I taught at universities for

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30-plus years, and I taught personal finance. When we talk about things like mutual funds, the trouble with a down economy, if you're a mutual fund manager, is at a time when the economy starts to go down and all of a sudden you can scoop up the Apples, and the Googles, and the Amazons, and all that at bargain basement prices, that's when people get scared, and they want to pull money out. So now at the very time you want to be buying more because things are on sale, your investors want their money. That is where we, as lenders, can be very, very reassuring.

I've got a great relationship with my banker. Every time there's a dip in the market, or the market tumbles, or there's uncertainty, he's great about picking up the phone and calling. I've worked with him for oh, gosh, 20 years, I guess. Now we're to the point where when the economy goes a little bit wonky and I know he's going to call, I just send him a text. I'm like, "Hey, just need you to know I'm good. You don't need to call me. Call other people who are worried." He's always really funny. He goes, "Thanks, Mary, and I never want you to feel like I'm neglecting you." I'm like, "Nope, I'm good. You deal with people who need that assurance."

But I think it's really important. I think all of us have had to reach out to our clients and just say, "Hey, I know these are unprecedented times. Here's some areas where I can help." I was just in Texas, as I told you, and my parents are in their 80s. One of their really dear friends passed. I always hated that thing when after people pass and everybody goes, "Well, let me know if there's anything I can do." I'm always like, "Well, what can you do? I would like a list of options, please. What can you do? Give me a menu and then I can choose." You know, I was in the military, so I don't mind tasking people if they give me options. I think we need to be specific when we reach out to our customers and say, "Hey, I'm calling to check in on you. Also, I'm trying to figure out where I can best serve you. Here's a menu of options." Give people options. Don't be like, "Oh, I'm here for you." Wait a second. This is like something one of my friends said in 10th grade. "I'm here for you." Are you? Are you really?

Linda Keith:

You can even follow up and say, "Some of the things we're doing for some of our other borrowers right now are extending the loan terms and making sure that the line of credit is the right amount for you going forward." Actually give specifics. It is like my sister who, unfortunately, her husband passed March 11 last year. It's been a disastrous year. I'm in town with her. So, I'm the sister who tries to be helpful. I need to say things like, "Okay, so do you need some laundry done?" Am I just offering food? Am I offering to do her taxes?

You have to be specific, because especially someone who is in a challenging situation where they're feeling uncertain, they also don't want to bring something up to their banker without knowing how it's going to come across. Right? But if your banker says, "We could do forbearance. We're doing that no questions asked if it's a COVID issue for at least six months. Is that something that would help you?" Now you can say "Yes." Whereas if you had to bring up the 'forbearance' word yourself, as a borrower, you might wonder what they're going to do when you reveal that weakness to them.

Mary C. Kelly:

Oh, absolutely. If you're very close to them, then you don't have to worry. But if you're not, or if they don't feel close to you... You might feel close to them, but they might not feel close to you. You might

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think you're besties, but they may not think that. I think is very important to make sure that they know what their options are from you. That's part of you being a great partner for them in their business, is reaching out and saying, "Hey, just wanted to check on you. By the way, I know you didn't ask, but here's how we can help." "I know you didn't ask, but..." You and I did that with some of our clients this year, too. "Hey, I know you didn't ask, but I know it's been a really tough time for your members. If you need a program just for free, we're happy to help you out here. Whatever it takes."

Linda Keith:

As I look at our six stages, and as we come up on the end of this little episode, I've got to admit that I imagine there are actually still some business owners out there that are stuck in one of those first four. You mentioned number four resolution. There could be some out there that are still in rejection. "Nope, nope, nope, nope, nope. This is not happening to me." So, I would just suggest as a lender that if you suspect they're stuck in one of the earliest stages, then trying to understand what kind of questions you could ask, or even reassurance, or examples, might help them move into stages five and six sooner. Because there are amazing opportunities. There certainly are other businesses going out or someone who is in town planning to retire. Gosh, you could pick up their CPA firm, or you could pick up their inventory, or something. But you have to be thinking in stage five or six to even see those opportunities and move on them.

Mary C. Kelly:

You're absolutely right. So those six stages: the rejection, the recognition, that realization, that this is going to go on for a while, we need to make some changes, and then the resolution. That's very natural. Many people, Linda, cycled through that every single morning with their coffee. You just wake up. "Oh, we're still here? It's 2021, but it really feels like 2020 still. We're still in this?" Then my leaders go, "Okay. All right. What's going to change moving forward? How can I embrace the change? If I can't change it, I need to just embrace it. Get out ahead of it." Then we get into that new realignment, which is an exciting time for us to be looking externally beyond ourselves and really serving our customers.

Linda Keith:

Which is what this is all about. This serving the customers that helps us. It helps them. It helps the career of the person listening to this podcast. The way to move everything forward is to help everybody move forward through these stages. Absolutely.

I want to recommend one of your books, which we have linked in the show notes as a good business book to offer as a gift to business or business owner clients who have clearly moved into that stage five or six and are ready to make some progress. It's titled *Five Minutes Per Week: 52 Weeks to Better Business* and comes with an online vault with forms the business owners can use. If you've been listening to this podcast for a while you know that I believe we can create stronger relationships when we offer helpful conversations and follow up resources. This book could be a great step to help your clients move forward.

Okay. Mary, thank you so much for helping us with this.

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Mary C. Kelly:

Thanks, Linda. What a pleasure to be with you today.

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 pandemic recession safe and sound.

Take care.

About Mary C. Kelly

From her days as a naval intelligence officer to her role as one of today's most influential economists, Commander/Dr. Mary C. Kelly has carved out an unforgettable career in leadership. Former chief of police, professor, realtor, and HR Director, Mary has spent over 25 years teaching and training more than 40,000 military and civilian personnel.

Mary is the author of 13 books on business growth, leadership, and today's economy. She is a speaker, coach and trainer who has worked with hundreds of organizations and companies across the globe.

About Linda Keith

Linda Keith, CPA, draws on her 30-plus years of experience consulting with and training lending institutions; background in public accounting; 15-plus years as CFO of the family residential construction company; and 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 movement 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.

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

www.LendersOnlineTraining.com

Online training on credit analysis

www.LindaKeithCPA.com

Resources for banking, *Ask Linda* blog

www.CreditRiskReady.com

Podcast: Assessing, Managing and Mitigating Credit Risk and download of the *Credit Risk Readiness 2018 Study*

Resources

- Book: *Five Minutes Per Week: 52 Weeks to a Better Business*
<https://productiveleaders.com/product/5-minutes-per-week-52-weeks-to-a-better-business/>
- Website:
www.ProductiveLeaders.com/2021Success