

## Recession Thoughts: Lending

There are all sorts of complications associated with the God-awful financial mess that we've gotten ourselves into, and continue to live with. A lot of it is due to economists who don't seem to have brains but lots of IQ points, and mathematics guys with PhD's and so on. But at the bottom of it all, it's lending money to people you shouldn't have lent money to by people who shouldn't have lent money to them. And that's what started the ball rolling with this sub-prime mess.

As the sub-prime mess thing unwound, my sometimes-fuzzy brain was un-fuzzy for awhile, and I had this clear memory of this seminar that I was giving—it must have been 10 or 15, or even 20 years ago—and there was a guy at the seminar who was the Chief Executive Officer of a smallish to middle-sized Midwestern bank. And I have no idea what the context was that triggered it, but I really do—and I think I'm right on this—I really do remember his words pretty precisely.

And he said, “Tom, let me tell you the definition of a good lending officer. After church on Sunday, on the way home with his family, he takes a little detour to drive by the factory that he just lent money to. Doesn't go in, or do any such thing like that; just drives by and takes a look.”

And I think that is just as potent as it gets. You know, key words are things like, “Just drives by, takes a look.” He's not examining their books on a Sunday after church. He just wants to smell the place, and case the place. And is the parking lot dirty or is the parking lot clean? Are letters missing from the company's name? And so on. But he is intimately in touch with a group of human beings to whom he lent money.

And as I say, the financial crisis goes from mathematics PhD's to what have you, but somewhere in the middle, or near the bottom, are human beings in a straightforward way lending money to other human beings. And you know, as I said, I think my memory is really clear on that one. “Just drive by, take a look, smell or taste it, touch it.” We get in

so much trouble in bigger institutions these days because we don't smell, taste, touch the places where the real action takes place.