

## Career Shot: Commercial Banking

Courtesy of Career Leader

Commercial banks perform two main functions:

- lending money to businesses and individual customers
- providing individuals with checking and savings accounts, car loans, home mortgages, and automatic teller machines (all of which are collectively known as "retail" services in the banking industry)

Such banks come in several varieties:

- **Small, independent banks** provide credit to businesses and individuals in the community. People who work at these banks get to know their customers, review loan applications, know how to tactfully decline applications that don't pass muster, and manage other bank personnel, such as tellers and "back office" personnel.
- **"Retail branches" of larger banks** provide the same services as the independents but with greater resources (and often with greater bureaucracy and less autonomy).
- **Large money center banks** and **banking holding companies** are global businesses. They lend money to large corporations all over the world, move money to different overnight "parking places" where it can earn the most interest, trade in foreign currencies, invest in the capital markets, manage huge infrastructures, and deal with thousands of personnel.

Whether large or small, all commercial banks have one thing in common: They make a profit by lending money to customers. In fact, the interest that a bank charges for loans constitutes a primary source of revenue.

As part of the lending process, banks must persuade potential customers to borrow money from them rather than from another bank. They do so through various strategies:

- offering better terms (lower interest rates) or larger sums
- forming close relationships with their customers, much like salespeople do

In other words, banks have to "sell" loans, which are simply agreements to "rent" money to their customers. Thus a commercial lender has to have excellent sales skills: If he or she doesn't make the sale, someone else will.

Small and large banks sell their services and enhance their reputations in different ways:

- **Smaller, independent bankers** work close to home, actively participate in community activities, donate time and money to local charitable organizations, sponsor young people's sports teams, and so forth.
- **Large corporate lenders** travel a great deal, advising and entertaining potential customers, such as CEOs, CFOs, and treasurers in client companies. Banks that have an international presence may work with senior government leaders (e.g., the Minister of Finance) in the country in which they're based.

In a large bank, the "selling" of loans takes place both externally (with individual customers) and internally (with the bank's credit committee). As you can well imagine, banks don't like it when loans "go bad"; that is, when borrowers can't pay back the interest and the principal they borrowed from the bank.

So a lender who works for a large bank needs to convince the bank's credit committee that the potential profits gained by lending to a particular customer justify the risk, and that the risk is manageable. Not surprisingly, there's a tension of sorts between the lender and the committee:

- The lender wants to "make the sale" (because part of his or her compensation is tied to how much money he or she lends).
- The credit committee wants to play it safe. Therefore, it will scrutinize the lender's "package" from every angle and pick it apart, looking for potential problems.

If you enjoy crunching numbers *and* building relationships with clients, a job in commercial banking might be just the right fit for you. But, what *kind* of commercial bank would you prefer to work for -- a small, independent bank with roots in your community, or a large, heavily resourced bank with an international presence? The choice you make will greatly affect your work atmosphere and the clientele you serve.

Regardless of whether you prefer a small and independent or large and international bank, the best entry point after graduation is the same: a training program within a large commercial bank. This experience will give you a solid foundation of skills, which you'll take with you throughout your career. If your graduation is still a few years off, try to get a summer internship with a bank. (Don't forget the local bank in your home town or city.) You'll get exposure to the kinds of work done in commercial banks, as well as the vocabulary that bankers use. When you're looking for a job after graduation, the internship experience will show your commitment to the industry, as well as help you present yourself professionally during interviews.