

Field Exam in Changing Times: Fundamentals and Best Practices

BY JAN TAMMEN

Jan Tammen of PNC Business Credit discusses some of the lasting changes to the field exam industry brought on by the pandemic.



t was the best of times; it was the worst of times.

All in all, the COVID-19 pandemic was certainly one of the most stressful of times that many asset-based lending (ABL) professionals have experienced in their careers, especially in the field exam function. Rather suddenly, in a matter of a few days, the very fundamentals of the field exam job function changed.

There was no more “field”, at least for the foreseeable future, and examiners lost many of the on-site capabilities that previously allowed them to be the vaunted “eyes and ears of the bank” for their institutions.

Test counts? Let’s hope there is cell phone reception in the warehouse.

Questions for the controller? Hopefully they are able to work remotely and have access to the data the team needs where they are.

Leading a team and/or training a new hire? Prepare to be even more intentional in setting up calls and monitoring progress.

The pandemic, and the messy quasi-emergence from it that the world currently finds itself in, challenged many of the notions of how due diligence could and should be performed, and posed significant challenges in technology, operation, and interaction. Once the dust settled, it also left field examiners with new approaches to how the work could be done, and age-old, but ever-updated, fundamental best practices to perform it at their highest level.

Preparation

Prep work, where possible, has often had a significant impact during the pandemic, allowing examiners to stretch their assignments and work around disruptions caused by personnel or communication challenges. The early request of files, information, and, where possible, certain parts of the exam other than testing, left examiners better prepared when going into the field, increased the time for value-added due diligence and, in many cases, reduced the “overtime” of a pandemic field exam.

Examiners who were successful at prep work could then take advantage of the time gained by having some of the work completed earlier than their official field work start date. This generally resulted in less disruption from pandemic-related delays. Unfortunately, this experience was not universal. Reduced staffing levels in accounting departments and the difficulties stemming from the displacement of accounting teams caused many good-faith efforts at prep work to flounder.

Where it worked though, and where it was supported by the examiner, the borrower, and the lender, it could make a big difference, even if only in the mental well being of the examiner assigned to the task. All it takes to start prep work is communication.

Communication

Effective, timely, and thorough communication has made the difference between a successful and a frustrating field exam since the very first field exam in recorded history. Be it in the third-party provider space, where communication is critical to building, and maintaining, the sterling reputation you would like for your firm or yourself, or the in-house field exam world, where it can help reduce friction, bridge gaps in understanding, and foster stronger collaboration, communication is key.

A great field examiner is one who communicates with all interested parties at least once a day, giving updates, asking questions, and keeping everyone on the same page. This was true prior to the pandemic, when due diligence professionals were in the field for the duration of the exam, and it was confirmed during the early remote-work days of the pandemic and the new age of hybrid work, where examiners had to sometimes fight the silo-mentality effect of working from home in order to truly make communication work with all parties. Exam management, training, and the sharing of information with the internal or external client, all required intentional communication – It’s more than just a call or an e-mail.

When done well, great communication can make an exam flow more efficiently, and can provide the due diligence professional with the help they need, be it from their teams or their organizations, to get the job done.

Collaboration

Teamwork makes the dream work. Cliché, a little corny, and often overused, it is a truism for a reason, and, in due diligence, an essential one. The intentional willingness of exam teams and their business partners to work toward the same goal, the balance of good customer relations and a safe loan portfolio, was often tested during the pandemic. Stimulus spurred competition, but also often covered up some of the issues inherent with the borrower.

While field exam prides itself on its independence, it is the relationship between the examiner and the account officer or underwriter, that can have the biggest impact. If the relationship is fraught, or not well maintained or if assistance is not forthcoming when it is needed and requested, the job of the field examiner becomes much harder.



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This results in frustrated examiners either working on multiple assignments at once, or having to cut their due diligence short due to the demands of the tight field exam schedule. In some cases, this can lead to holes in the exam, and these holes could be full of unpleasant surprises.

From a field examiner's perspective, this is why it is essential to communicate with the account officer regularly, point out issues as they arise, and ring the alarm bells early enough in the process, so that the help offered can be effective and, hopefully, steer the ship back into smoother waters.

Equally important though, when those alarm bells ring, is the reaction of the account officer. Sure, the borrower may currently have significant funds, and yes, they may have submitted sterling financial statements, but due diligence, especially in the ABL world, exists for a reason. As stimulus fades and the industry emerges into the unknown, with potential hidden issues and "unknown unknowns" suddenly emerging, having a strong, complete, due diligence report will make a difference.

The Hybrid Model – Finding Balance and Making the Most of Your Time

As the pandemic continues to ebb and flow, field examiners once again find themselves being asked to venture beyond the walls and into the field, provided they can find a flight and a rental car. With awareness that the fully remote model did not, in most cases, provide all of the information that examiners wanted and needed, but also understanding that the old ways of doing business were often no longer an option, given that many borrowers moved to a hybrid model in their offices, field exam began to move toward a hybrid work model. Under this model, only certain days, or certain tasks, need to be done on-site and much of the exam can be done remotely. This model re-opened, albeit on a limited basis, the "eyes and ears of the bank."

As with the hybrid return to the office, the return to the field with a hybrid model requires intention. Going back into the field or the office to do the same thing you could do at home, just in fancier clothes, is not a good value proposition for either the examiner or the borrower.

Instead, as exam teams get back out there, they need to do so with intent. Every minute of field time should be used in effective ways, including:

1. The value-added conversation. Too often, especially during the pandemic, conversations have been short, to the point, and focused on specific exam processes. This can be done from anywhere. As examiners get the opportunity to return to the field, at least in a limited capacity, it's crucial that they not only talk to borrower personnel in person, but broaden the conversation to include items that may not directly concern the minutia of the field exam. At the very least, this will help build a relationship with the borrower.

More broadly though, and to the benefit of the diligence, these conversations may yield additional information about the borrower's processes, their business, and potential concerns that may not be readily apparent in the work performed during a field exam.

2. The value-added test count or plant tour. Looking around, asking questions, and taking a closer look at that hole in the warehouse wall, adds tremendous additional value to the act of matching boxes on a pallet to boxes on an excel spreadsheet. Examiners should be curious and keep their eyes open during the count or tour, using the time away from the c-suite, but close to the company, to their full advantage. Test counts, which were one of the most challenging aspects of field exam during the pandemic, reflect a crucial application of the "eyes and ears" principle.

The Way Forward

As examiners begin to move back into the field, and the world economy continues to tangle and untangle itself in myriad ways, the technology, skills, and mindsets that the industry adopted during the pandemic, paired with the age-old wisdom and solid fundamentals that form the bedrock of every thriving ABL shop, can propel this industry into the future. At the same time, these approaches can offer the borrower and shareholder value, and continue ABL's tradition of being the safe way to lend money, in good times, and in bad. ■

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Tammen joined PNC Bank in 2011 as a senior field examiner in the Corporate Banking group, after working as an outsource field examiner. He then transitioned to Business Credit in 2014 and became a field exam manager in the Mid-Atlantic region in 2015, before transferring to Dallas in 2016 for his current role. He graduated from Elizabethtown College with a bachelor's degree in International Finance and Marketing.