

8th Annual Loan Review Industry Benchmark Survey Results

July 9, 2019

Courtesy of DiCOM Software

Thank you for joining us. The webinar will begin promptly at 11:30am EDT.

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Welcome

On Behalf of the DiCOM team...Thank you for joining us!



Hosts:

Jim Xander

SVP, Sales and Marketing

DiCOM Software

jxander@DiCOMsoftware.com



Skip Costantine

Market Specialist

DiCOM Software

scostantine@DiCOMsoftware.com

About the Webinar



Purpose

- Provide industry benchmark data to support continuous improvement
- Offer insights to provoke thought for the benefit of the loan review function

Webinar Protocol

- Attendees will be muted to eliminate background noise
- Questions and comments may be submitted via meeting chat panel or email (jxander@DiCOMsoftware.com)
 - Questions will be answered via follow-up email after the webinar

Webinar Overview

Outline

- Survey Demographics and Portfolio Composition
- Department Staffing
- Loan Review Process
- Credit Risk Management Process
- Reporting and Guidelines



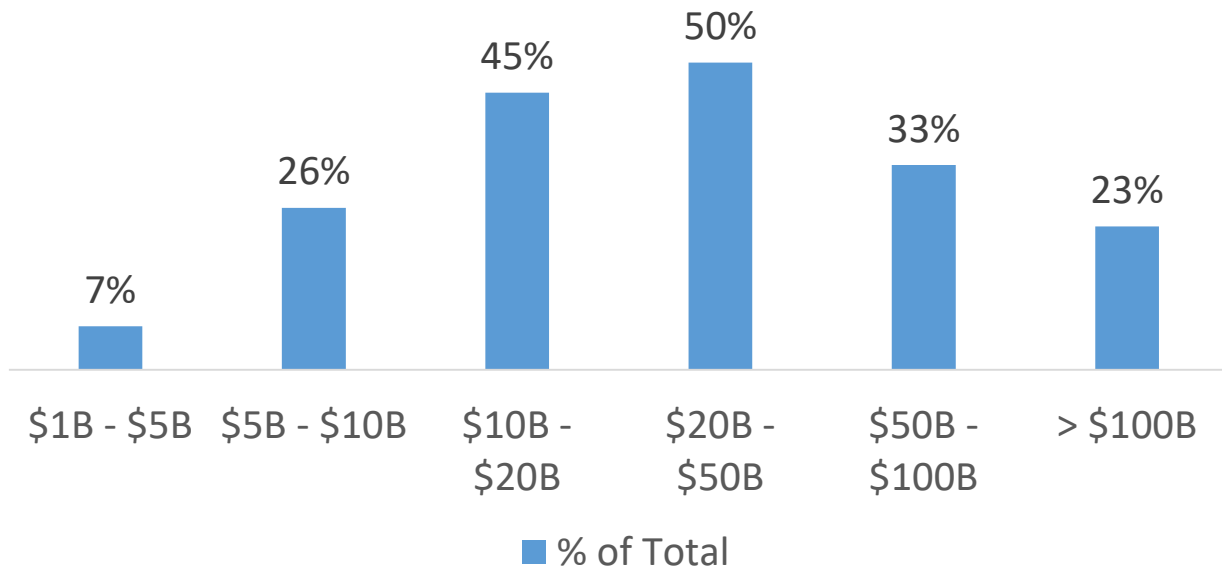
Enhancements based on Feedback

- Added “Mega-bank” Segment
- Collected Regional Data
- Added Performance and Productivity Questions/Analysis

Survey Demographics and Portfolio Composition

Survey Participation – Thank You!

% of Market Responding



Overall the participation gives us relatively strong data in every asset range larger than \$1B.

| Asset Size | Responses | Banks | % of Total |
|----------------|-----------|-------|------------|
| < \$1B | 3 | 4632 | 0% |
| \$1B - \$5B | 39 | 554 | 7% |
| \$5B - \$10B | 24 | 91 | 26% |
| \$10B - \$20B | 23 | 51 | 45% |
| \$20B - \$50B | 21 | 42 | 50% |
| \$50B - \$100B | 5 | 15 | 33% |
| > \$100B | 7 | 30 | 23% |

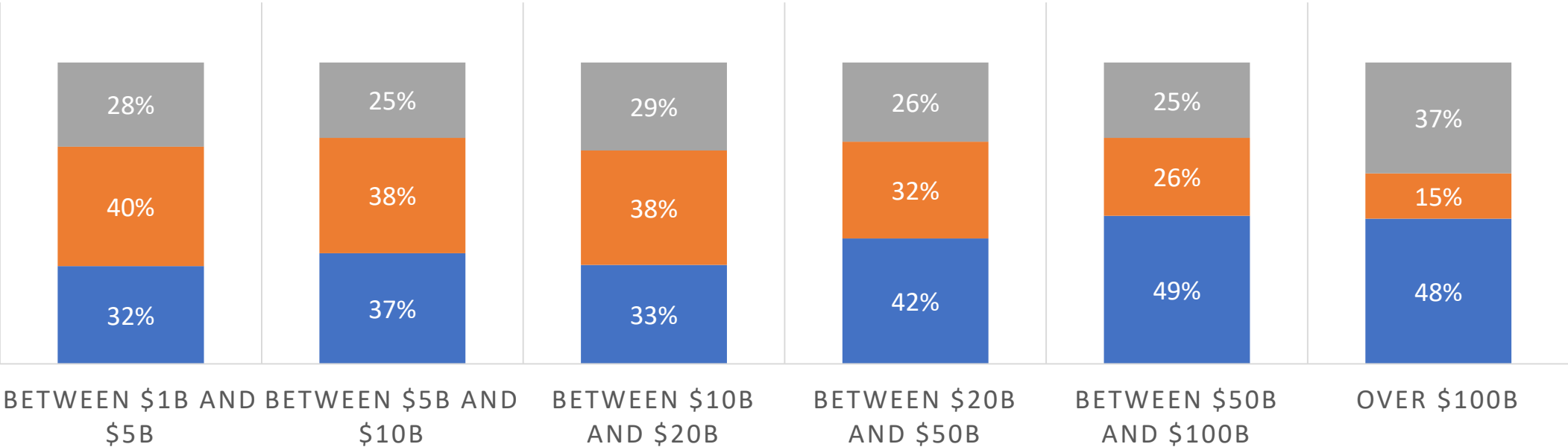
Loan Portfolio Sizes

CRE makes up the largest percentage for banks below \$20B

C&I makes up the largest percentage for banks above \$20B

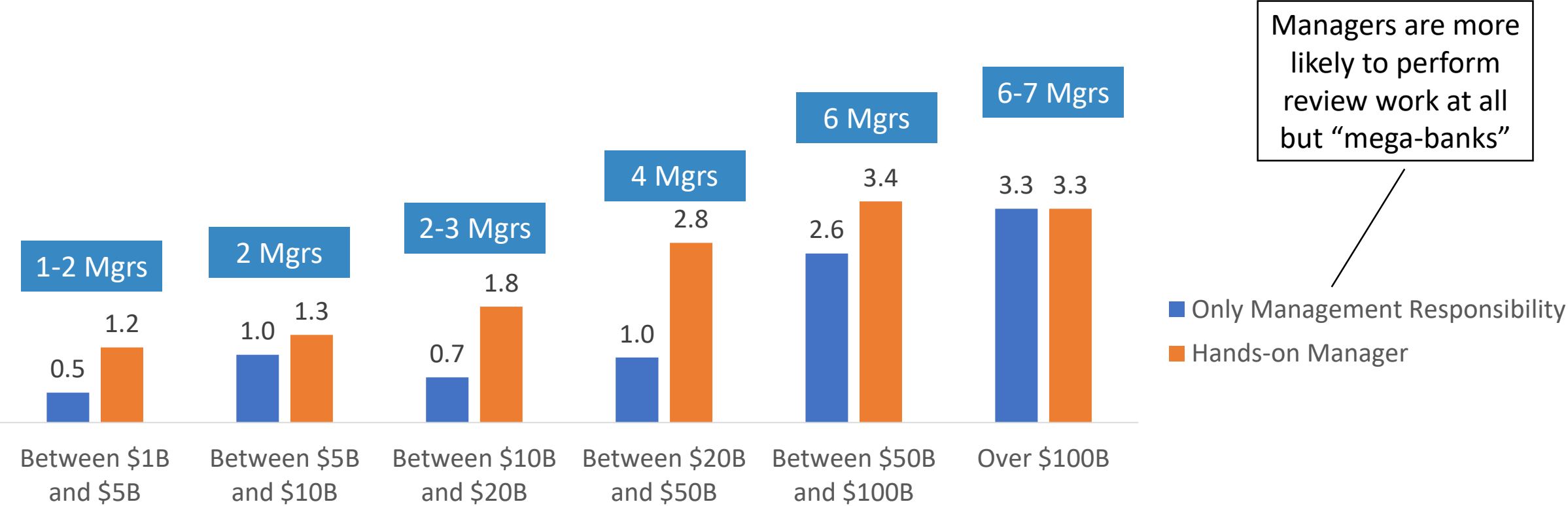
PERCENTAGE OF LOAN PORTFOLIO

■ % C&I ■ % CRE ■ % Consumer/Retail

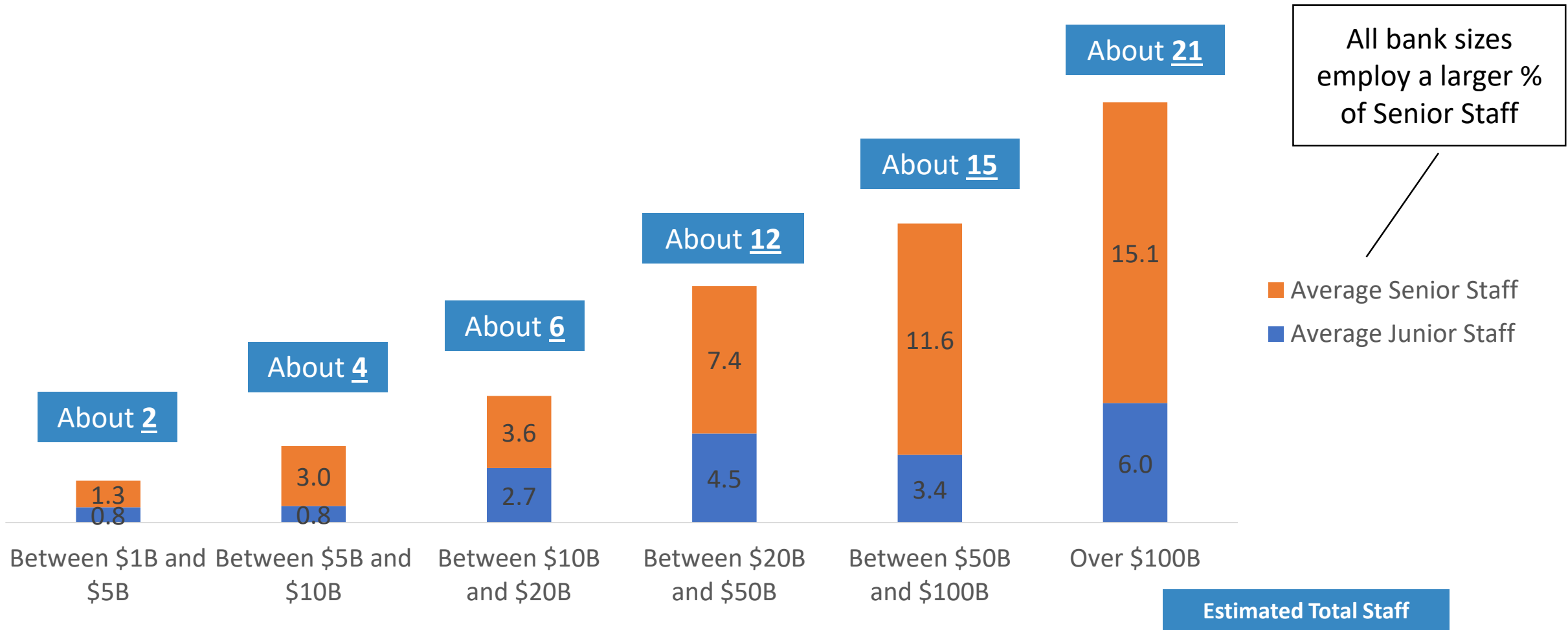


Loan Review Department Staffing

Management Personnel - Headcount



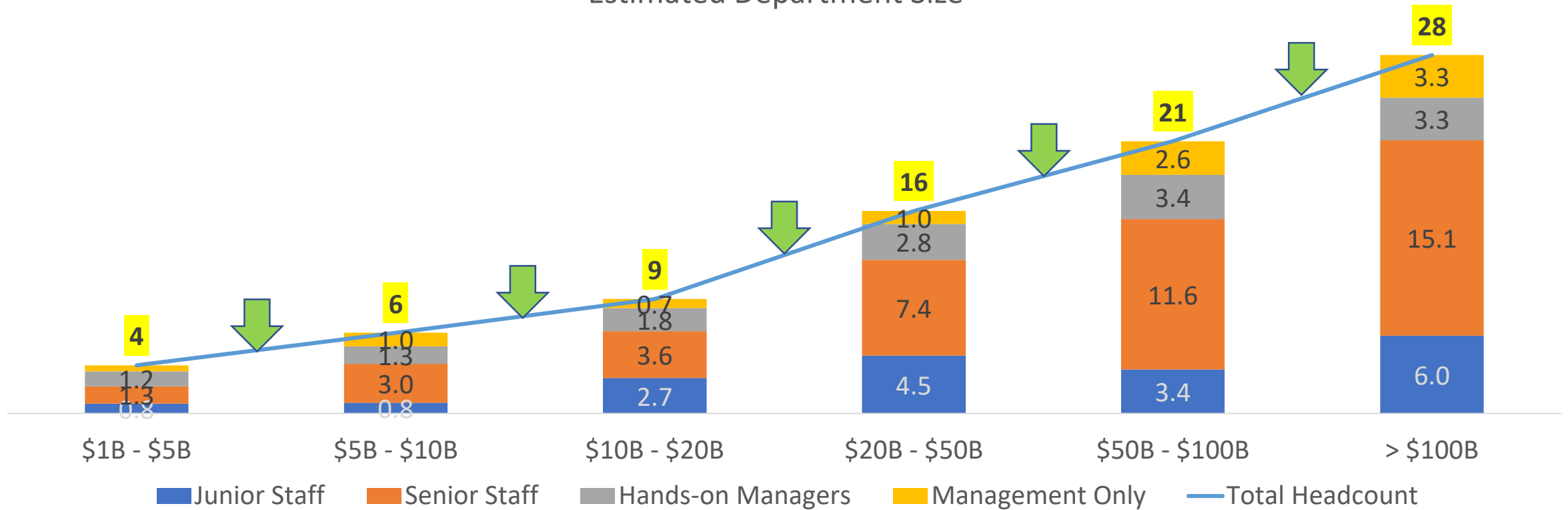
Junior and Senior Staff Levels



Combined Staff Levels

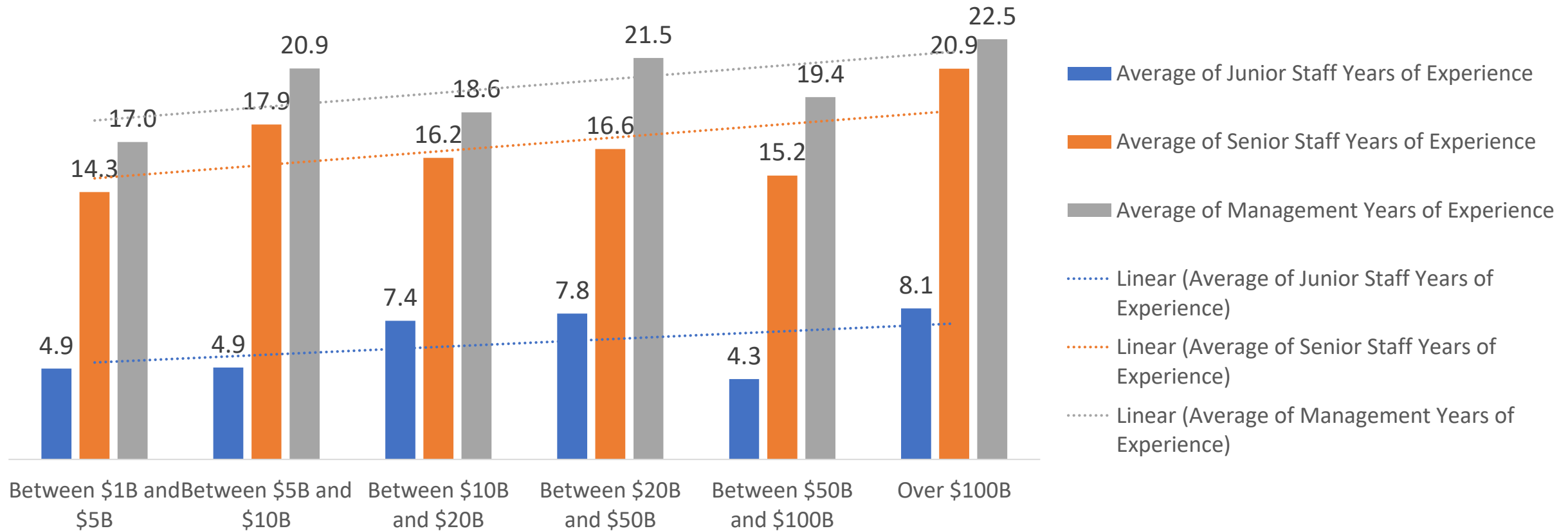
Spaces between the bars are good for estimating department size for banks on the edge of another segment

Estimated Department Size*



*does not account for admin or specialty staff

Average Years of Experience by Staff Level

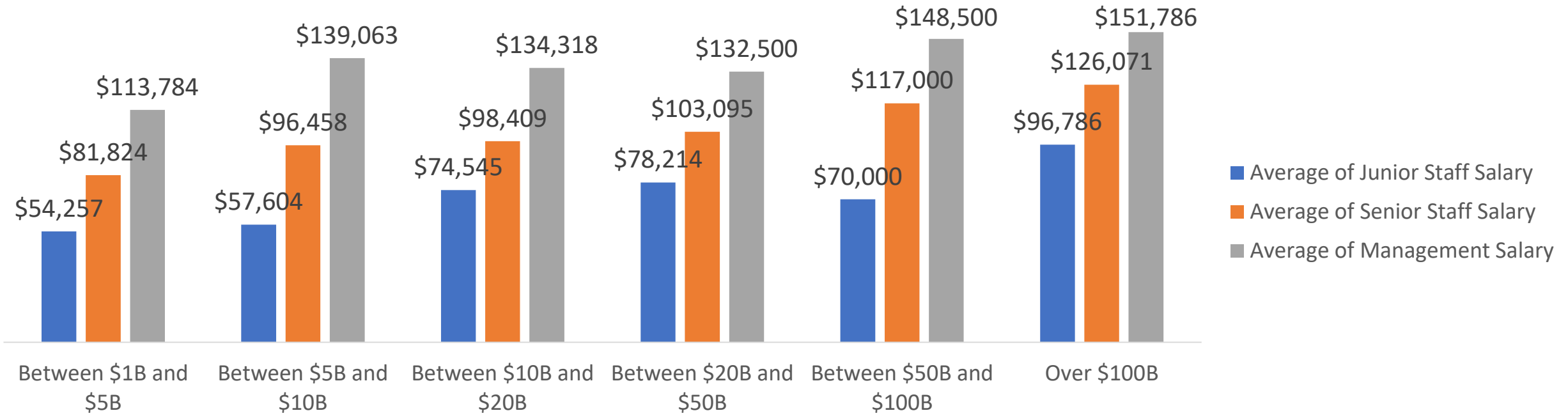


2019 Salary Levels

Average Salary Ranges

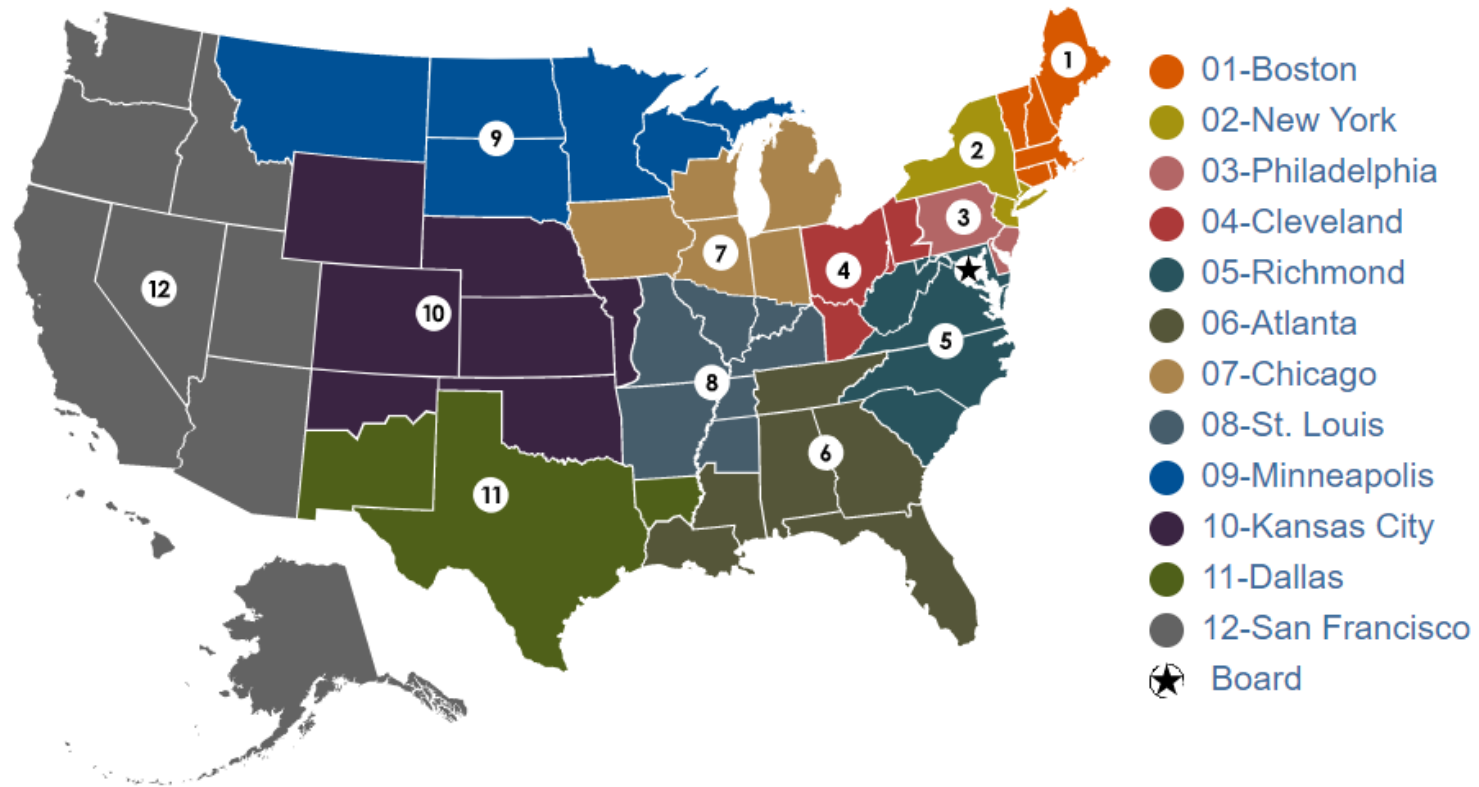
- Junior Staff: \$54k - \$97k
- Senior Staff: \$82k - \$126K
- Management: \$114k - \$151k

Salary levels tend to increase as the size of the bank increases



The Twelve Federal Reserve Districts

Federal Reserve Banks

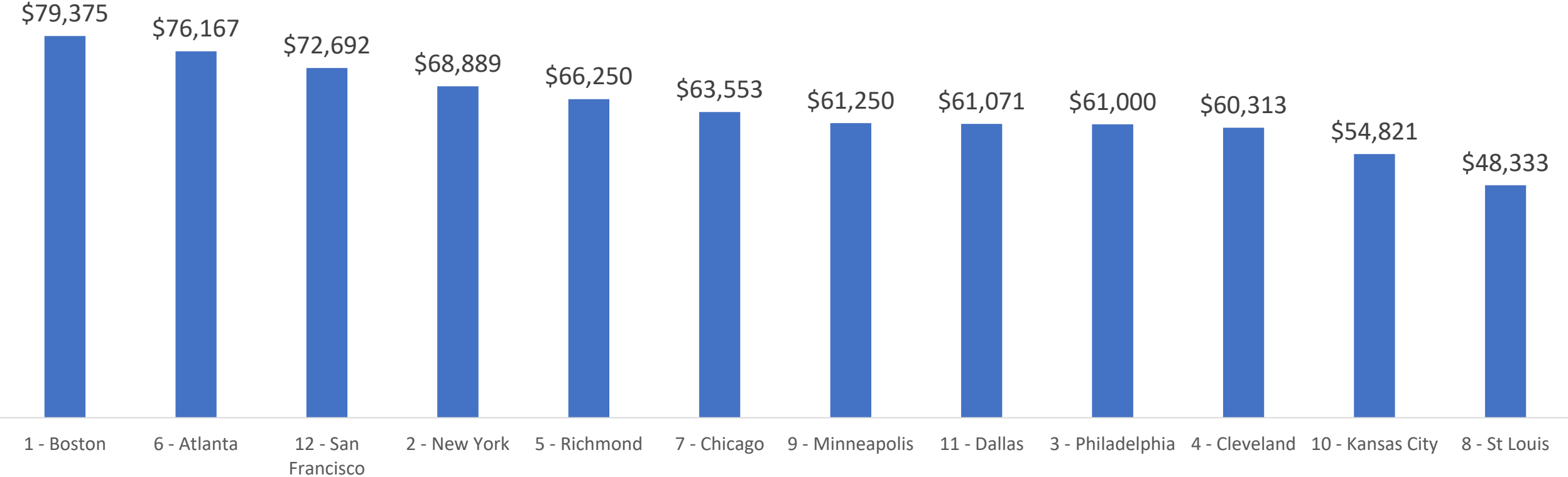


The Federal Reserve officially identifies Districts by number and Reserve Bank city.

Junior Staff Salaries

Salary Variance:
District 1 salaries are approximately 64% higher than district 8 salaries

Average Junior Staff Salary by Federal District

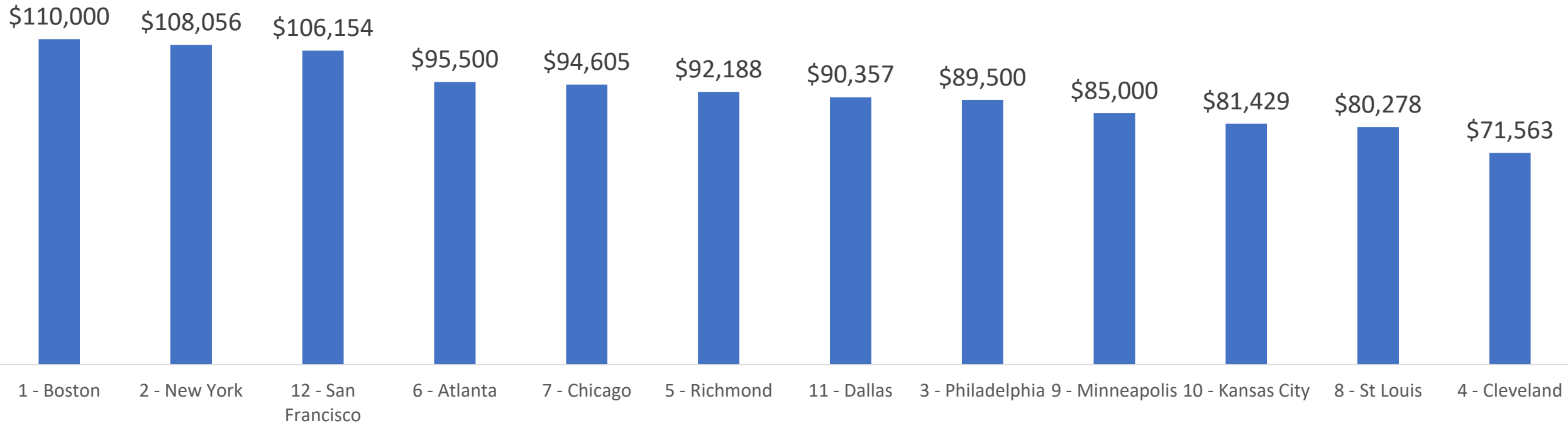


Senior Staff Salaries

Salary Variance:

District 1 salaries are approximately 54% higher than district 4 salaries

Average Senior Staff Salary by Federal District

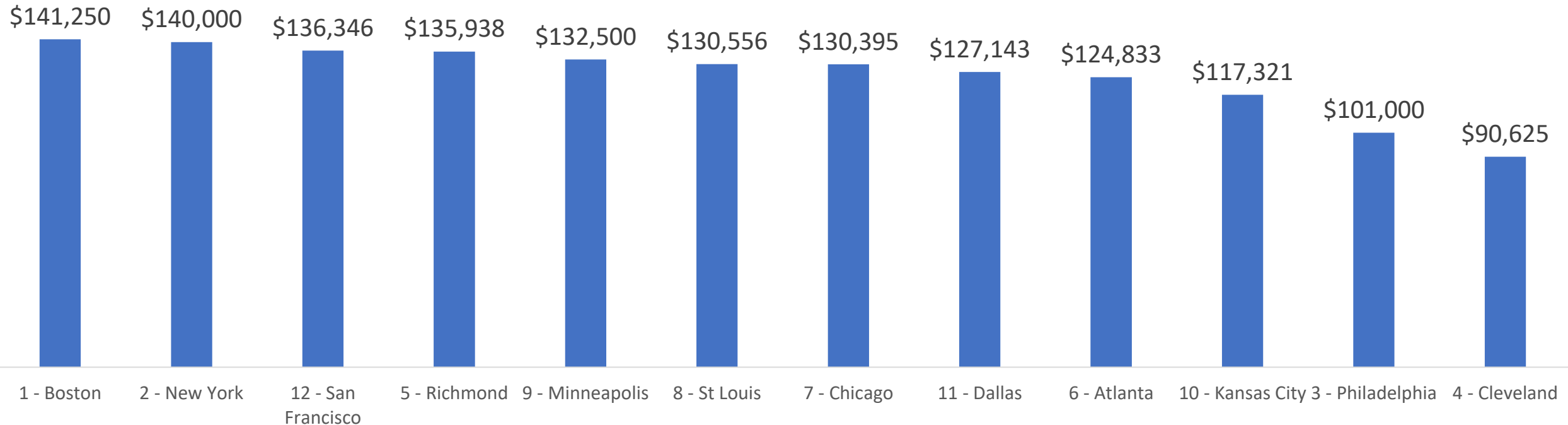


Management Salaries

Salary Variance:

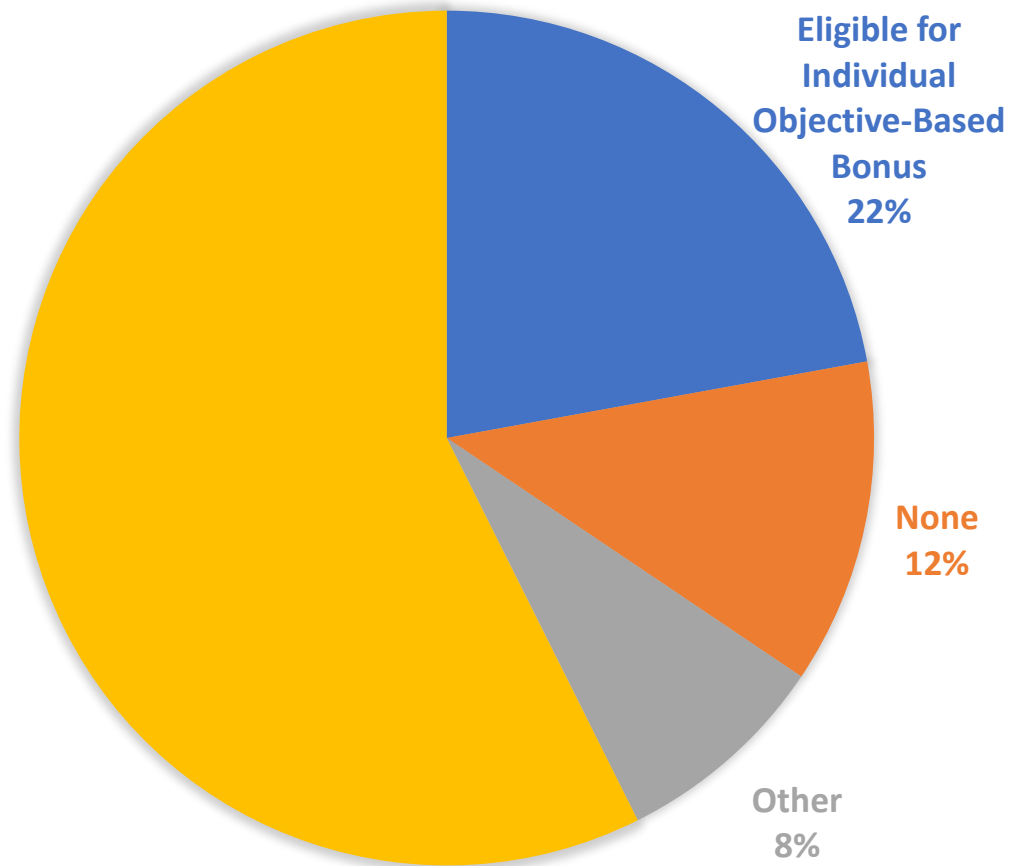
District salaries 1 are approximately 56% higher than district 4 salaries

Average Manager Salary by Federal District





Bonus Eligibility for Loan Review Staff



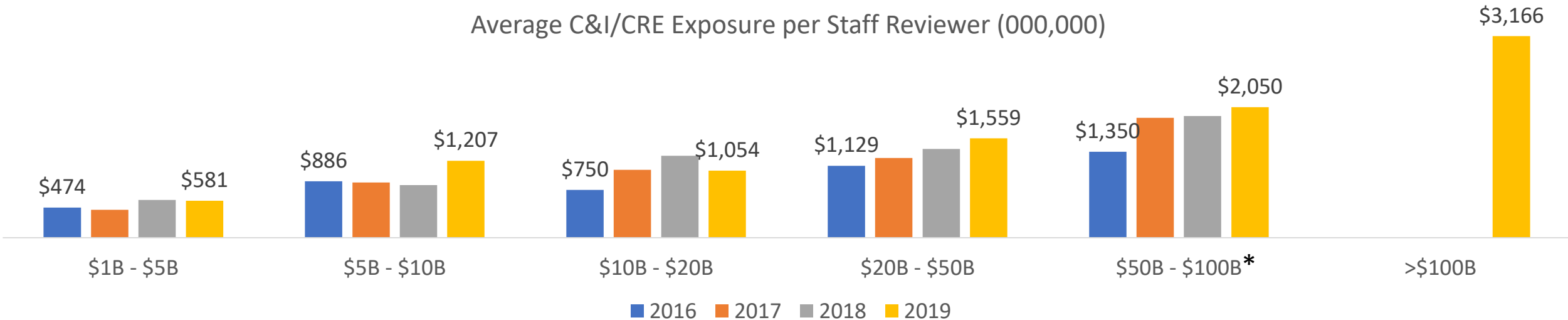
88% of respondents are eligible for a bonus. Bank-wide Pool is by far the most common option.



Average C&I/CRE Exposure Per Junior/Senior Staff Reviewer

- Exposure per staff reviewer increases with the size of the bank.
- All banks are showing a notable increase in exposure since 2016
- Portfolio Penetration % is relatively constant, suggests there is an increased workload on staff

Average C&I/CRE Exposure per Staff Reviewer (000,000)



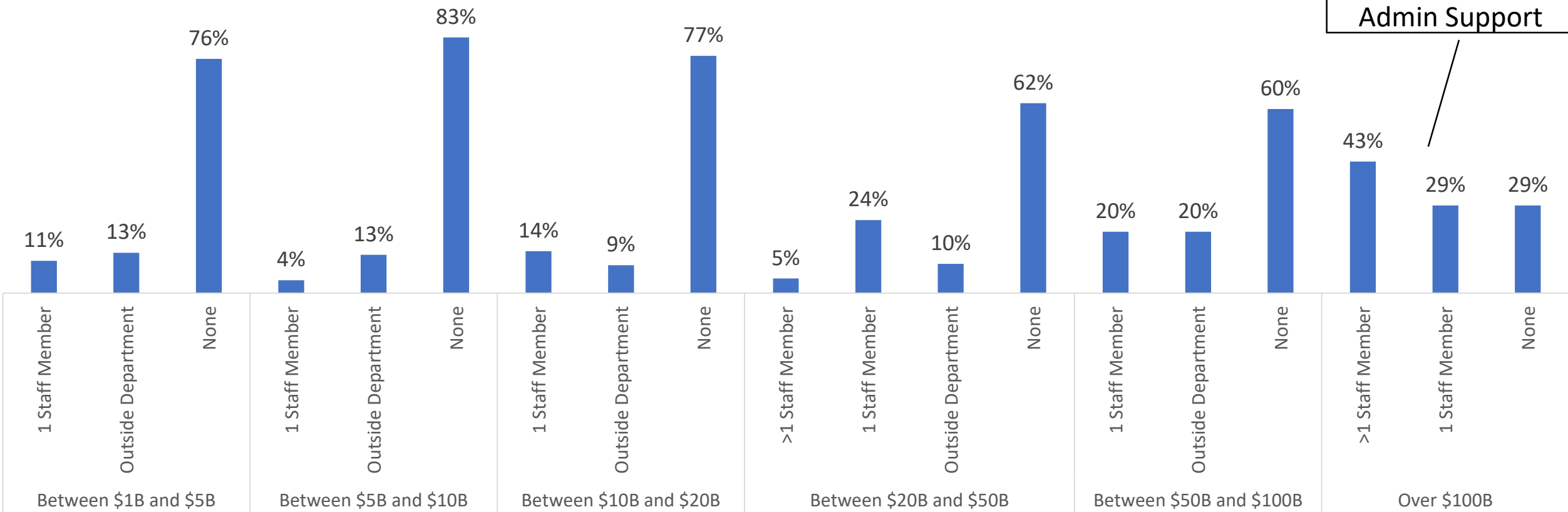
*In 2016-2018, \$50B-100B segment included banks over \$100B



Loan Review Support Staff

Availability of Loan Review Support Staff

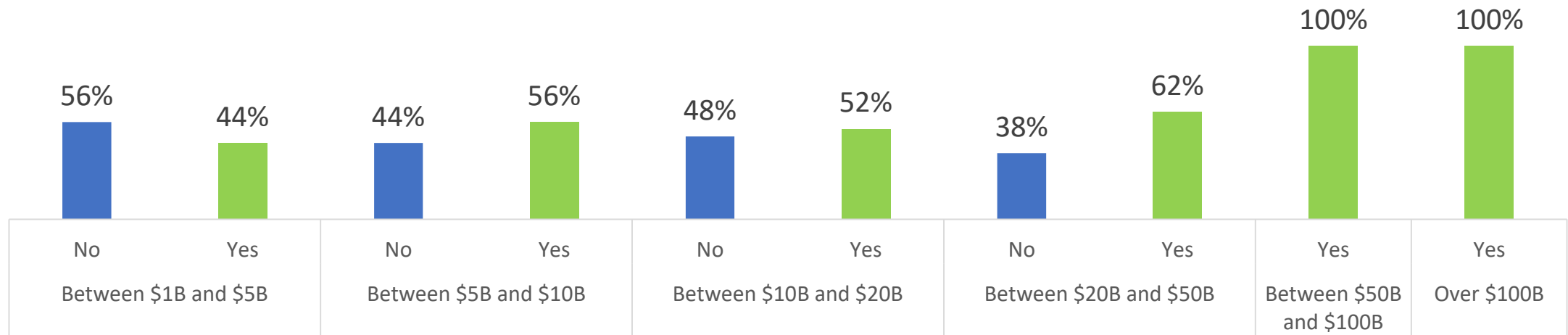
Only "Mega" Banks Have a Likelihood of Admin Support





Staff Training Likelihood Increases with Size of Bank

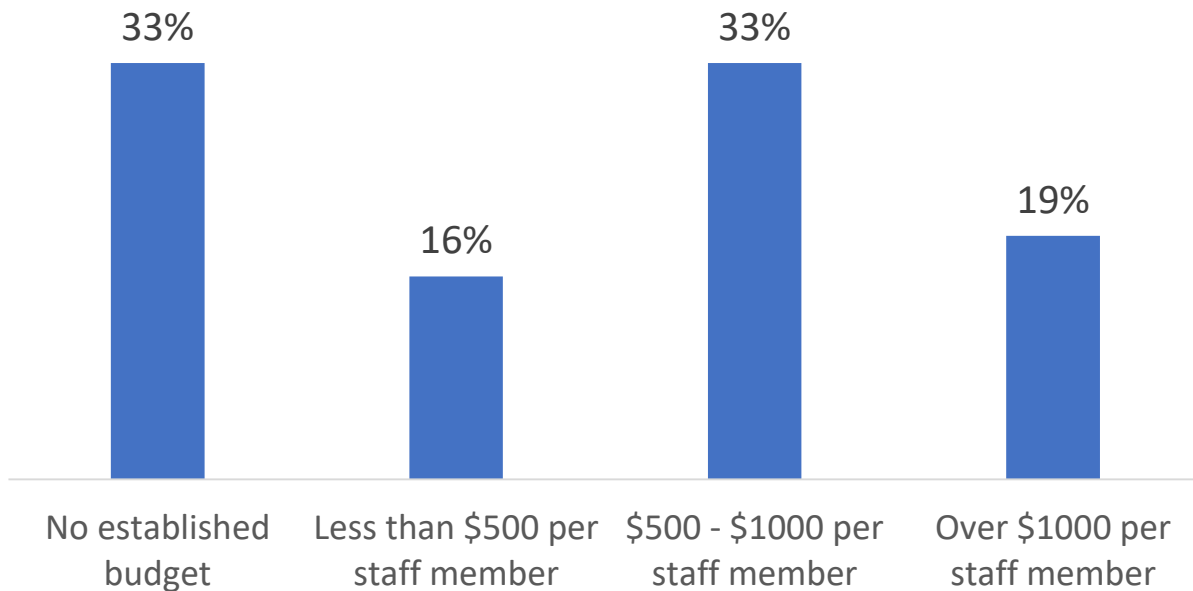
Require Training for Loan Review Staff



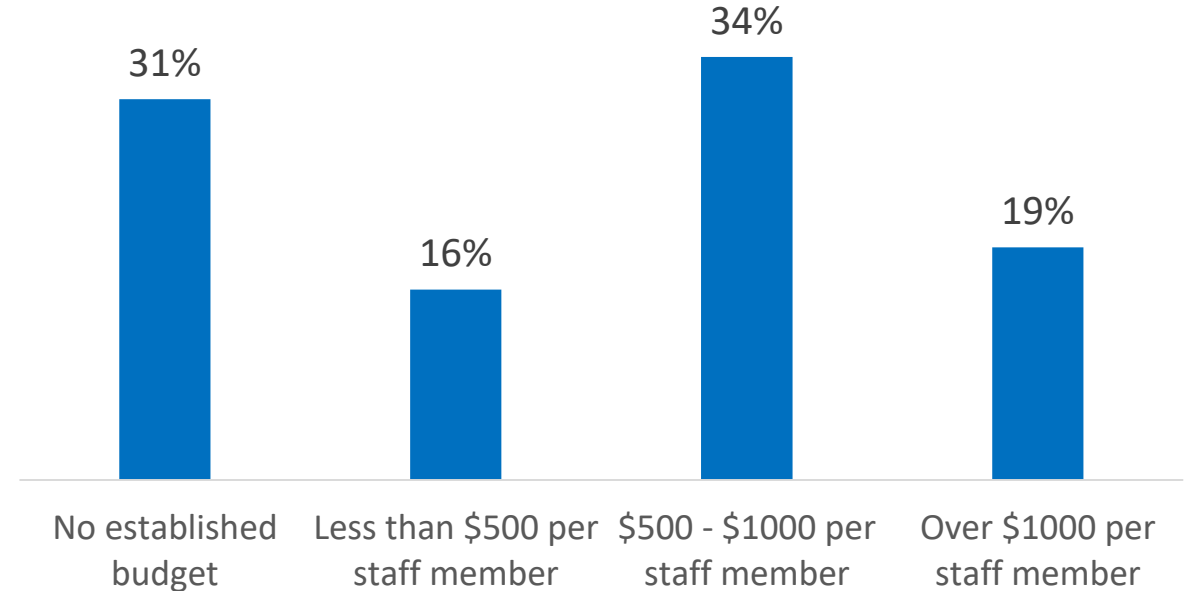


Annual Training Budget for Review Staff

Annual Training Budget for Loan Review Staff (2018)



Average Training Budget for Loan Review Staff (2019)

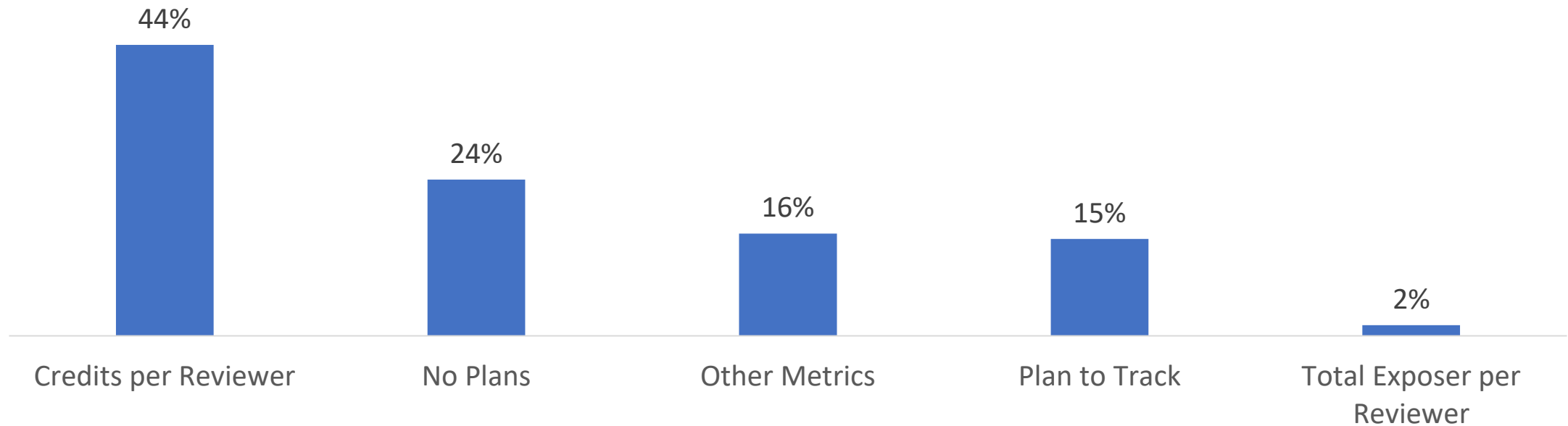


Loan Review Productivity

Overview

- 62% of Banks are Tracking Metrics
- 15% of banks have plans to start tracking
- 24% of banks aren't tracking metrics

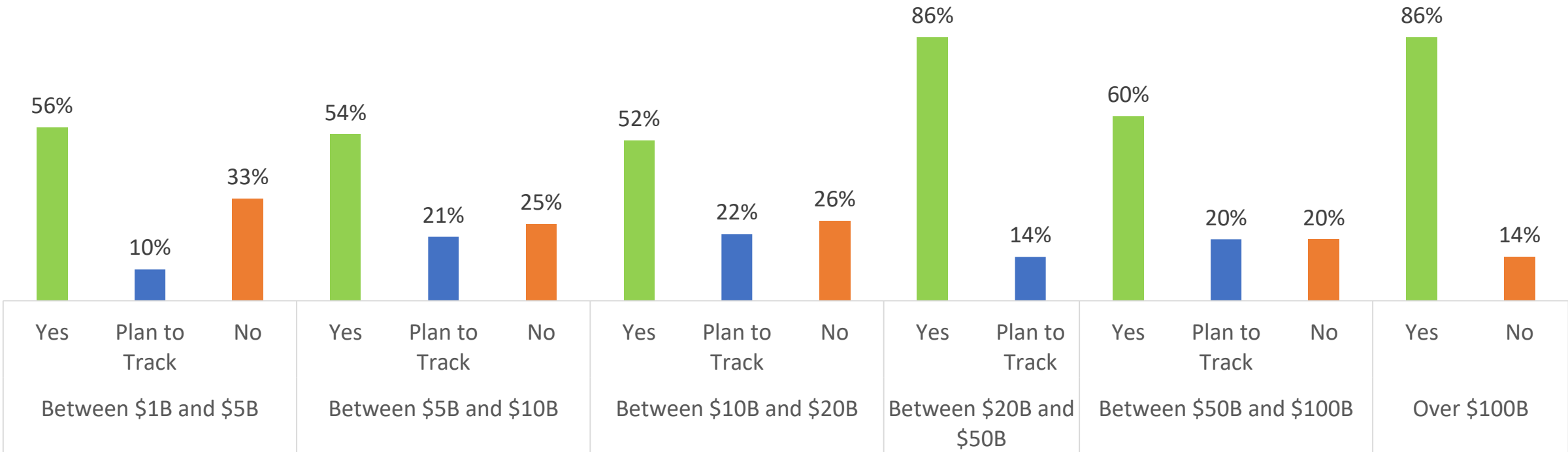
Productivity Tracking



Loan Review Productivity

Larger banks are more likely to track metrics

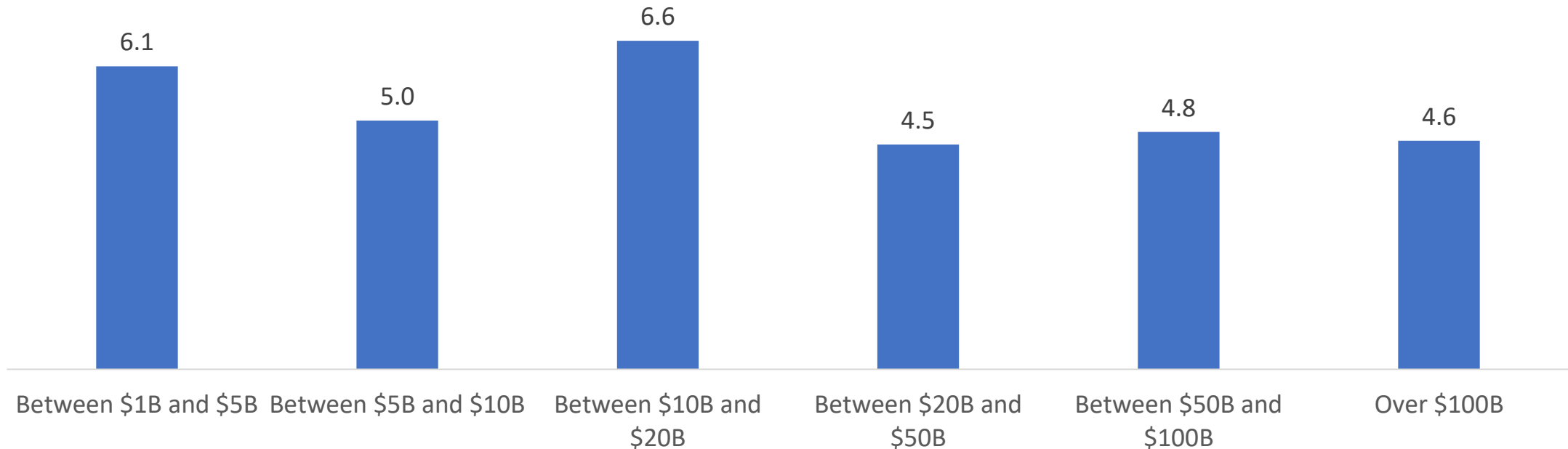
Tracking of Loan Review Productivity Metrics



Loan Review Productivity

Smaller banks indicate a slightly higher average than larger banks

Number of Files Reviewed By Reviewer per Week During an Exam*



**Data redacted to include only responses that commented/indicated "per reviewer"*

Section Highlights

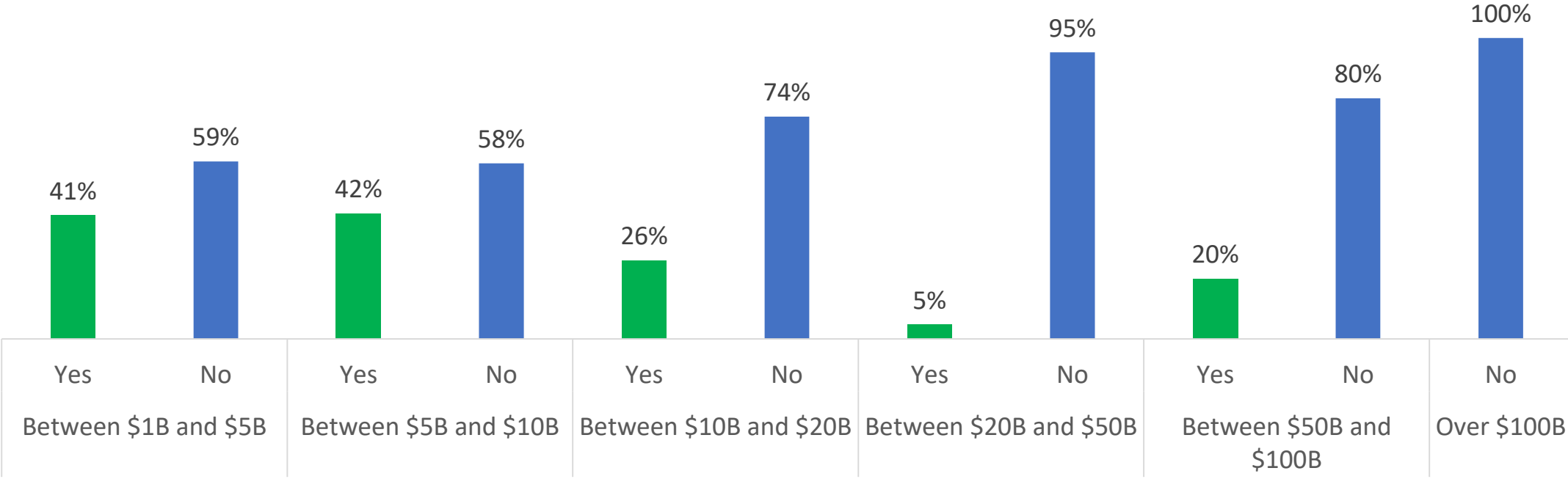
- Banks of all sizes are more likely to employ a larger percentage of Senior Staff compared to Junior Staff
- Salary and experience levels trend up as bank size increases
- Salaries in higher paying district can be over 50% greater than those in lower paying districts (comparing the highest and lowest)
- Asset exposure per reviewer increases as bank size increases
 - Exposure per reviewer is trending up in all asset sizes...Portfolio growth appears to be outpacing staff growth
- Average number of files per reviewer each week is between 4-6
 - Larger banks with more complex credits tend to be on the lower range

The Loan Review Process

Decision to Outsource

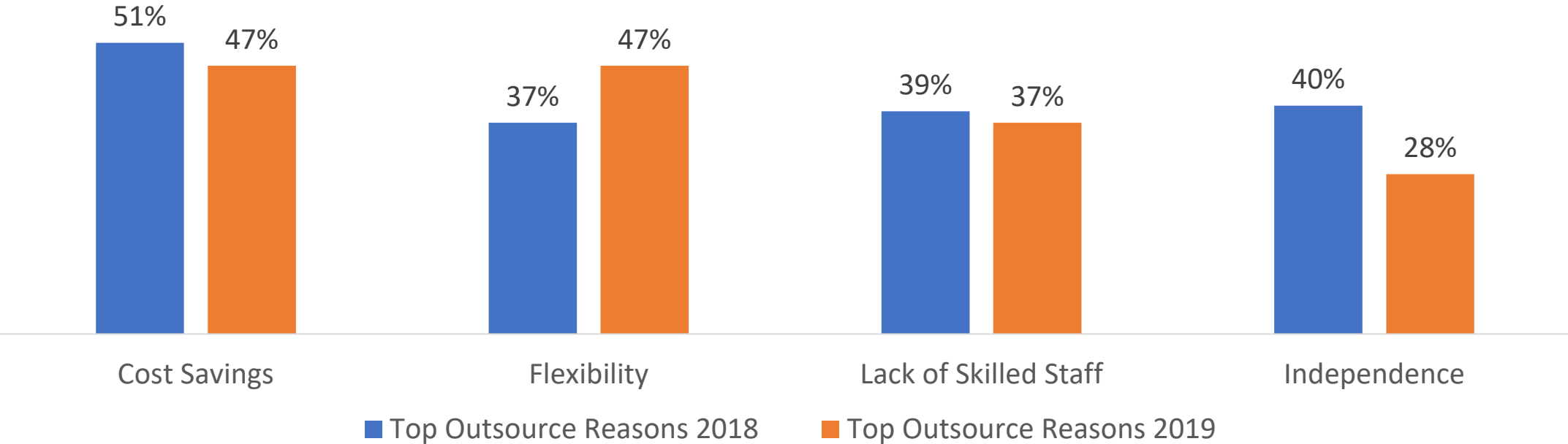
- All banks over \$1B are more likely to keep Loan Review inhouse
- Propensity to outsource drops with asset size

% Banks that Outsource Segmented Asset Size



Decision to Outsource Loan Review

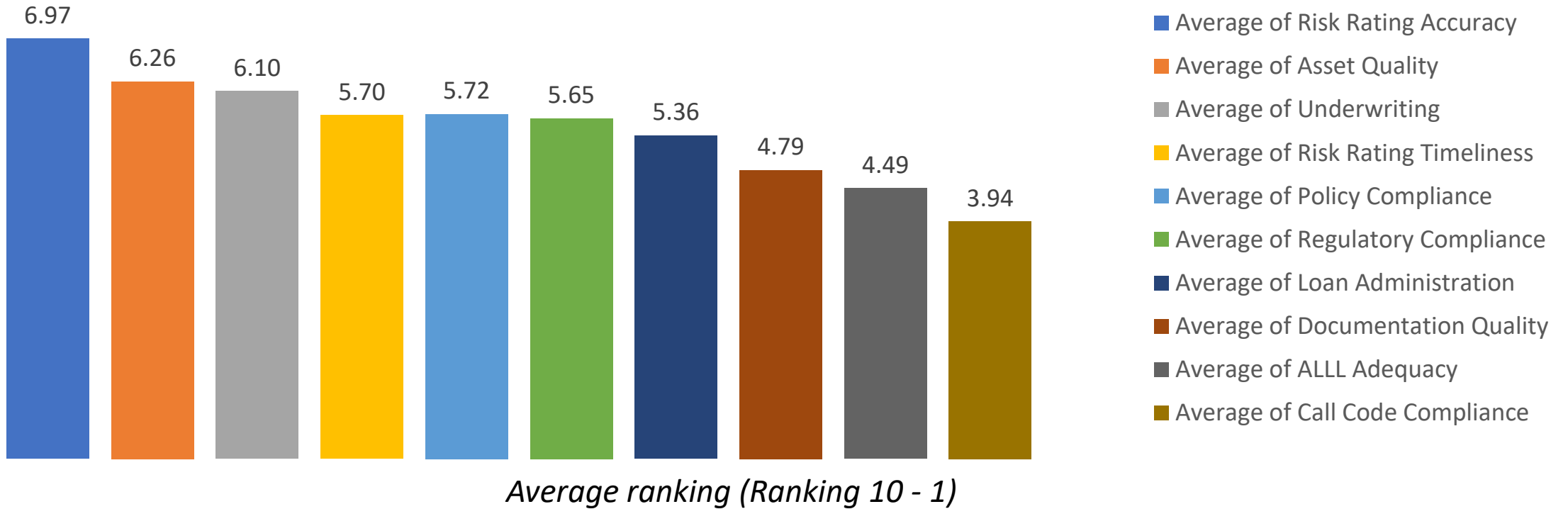
Outsource Reasons (2018 vs 2019)





Primary Objectives of Loan Review

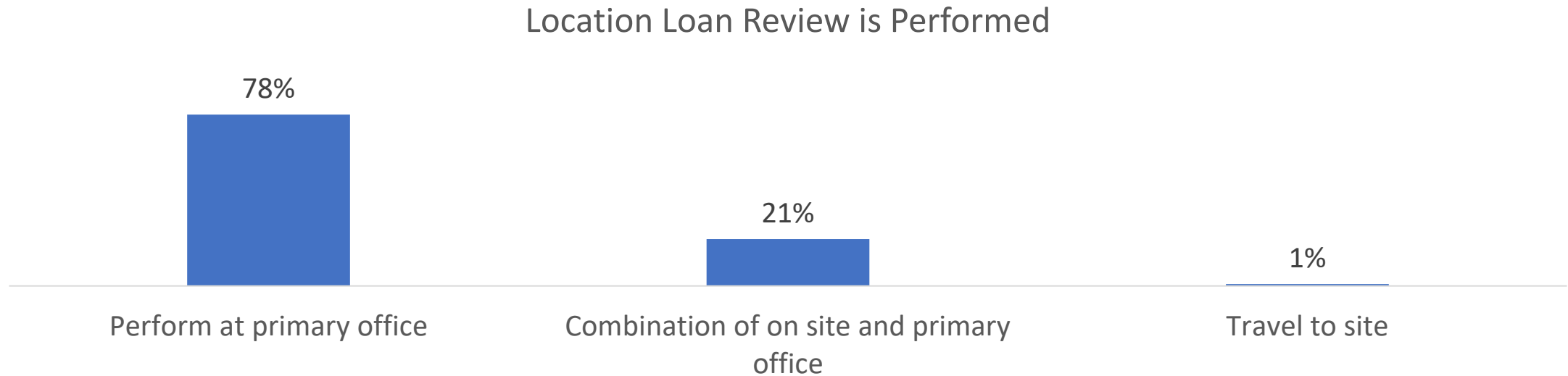
Top two objectives remain unchanged in four years





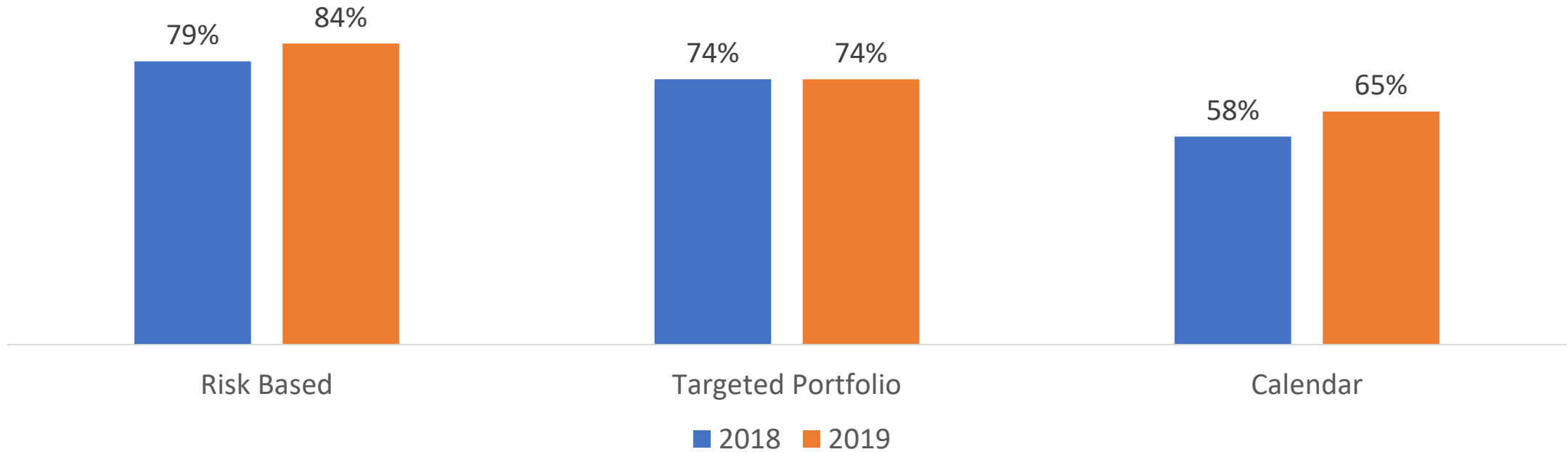
Location Loan Review is Performed

Banks of all sizes are most likely to opt to perform loan review at their primary office





Approaches Used to Set Loan Review Schedule



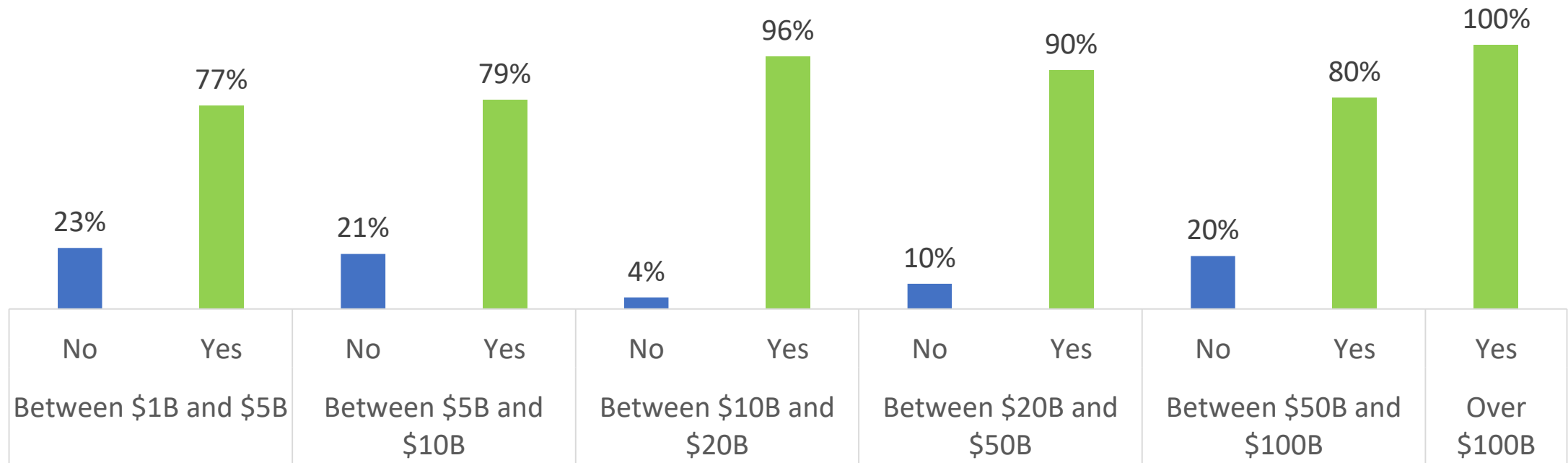
Multiple selections allowed. Percentage based on total respondents.



Risk Based Approach to Set Review Schedule

Likelihood to use Risk Based Approach increases as bank size increases

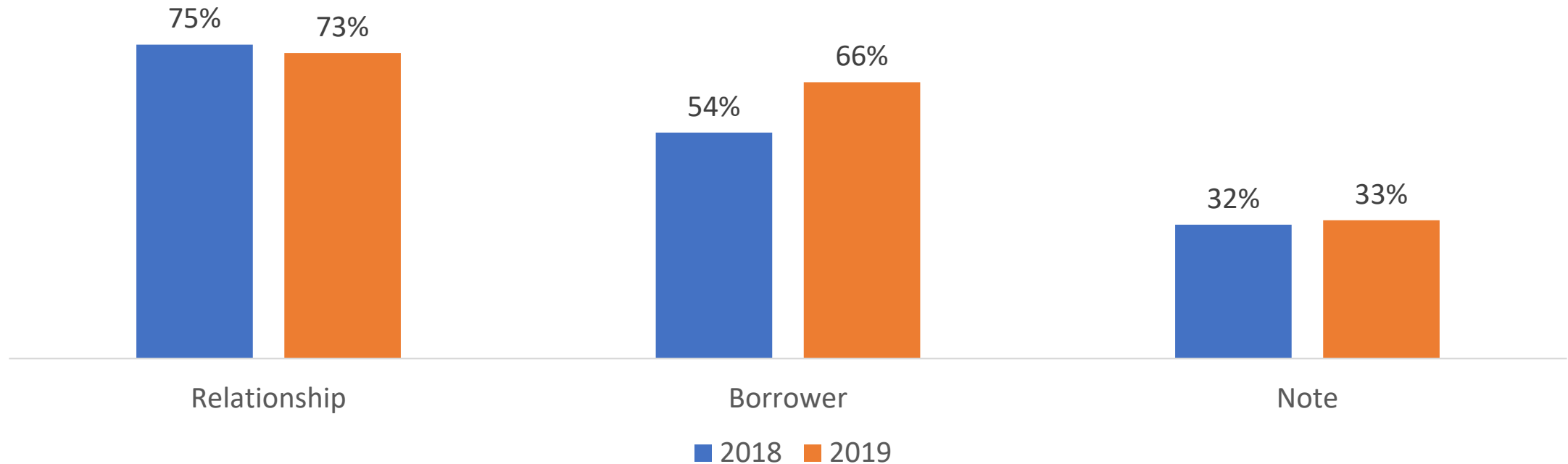
Risk Based Approach by Asset Size





Most Respondents are Reviewing at the Relationship Level

Level of Reviews: 2019 vs 2018

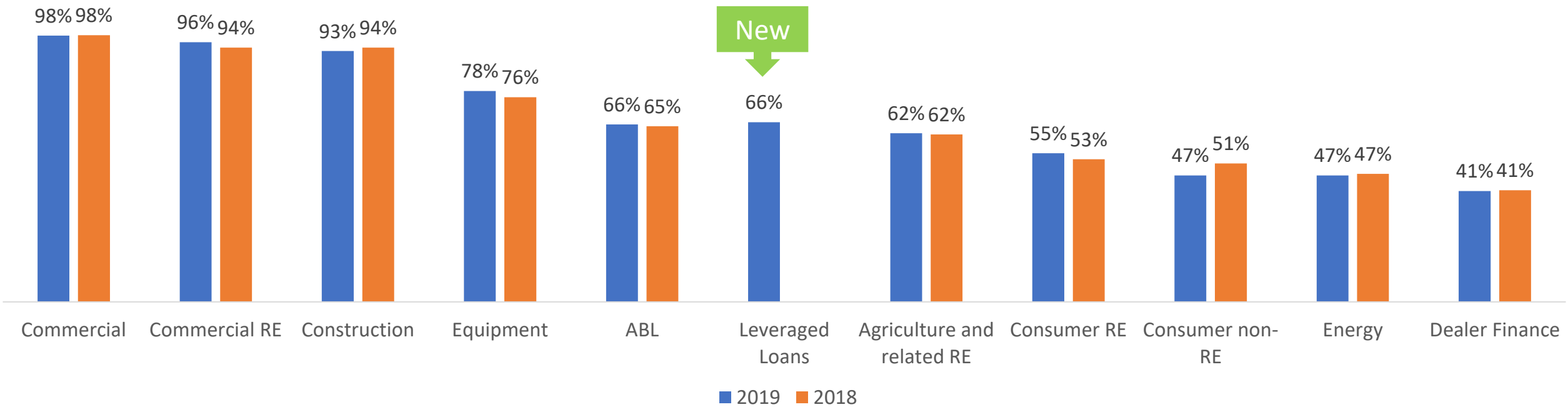


Multiple selections are allowed



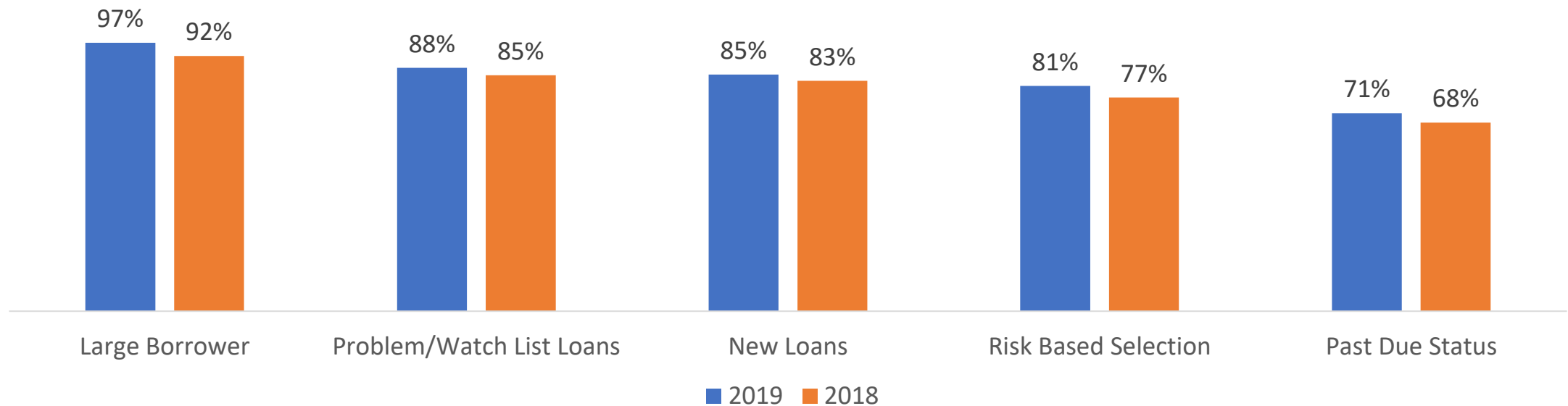
Types of Loans in Review

Types of Loans in Review: 2019 vs 2018



Sample Selection Criteria Used by Loan Review

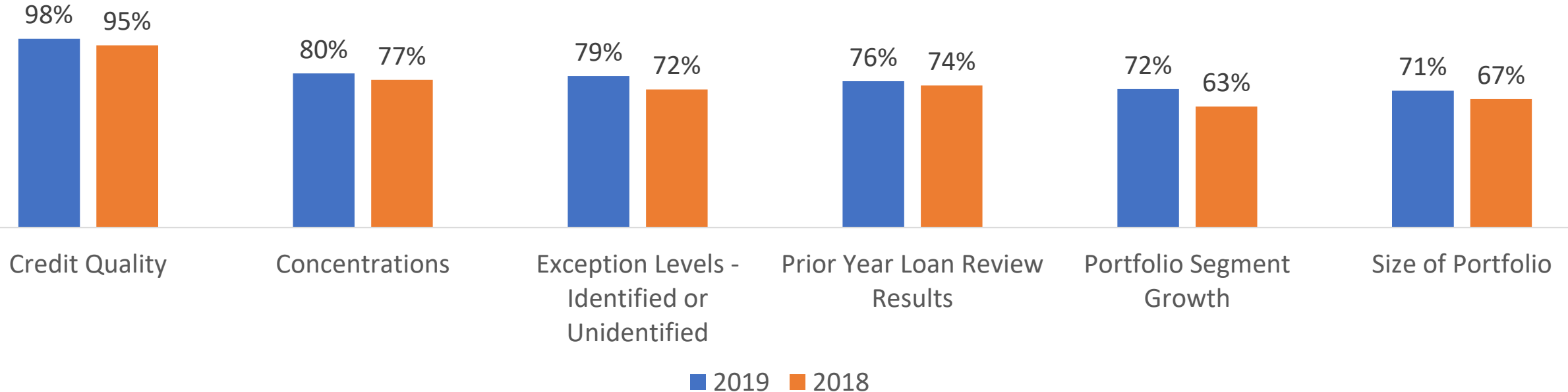
Top Five Sample Selection Criteria



Multiple selections allowed. Percentage based on total respondents.

Risk Assessment Criteria Evaluated by Loan Review

Risk Assessment Criteria

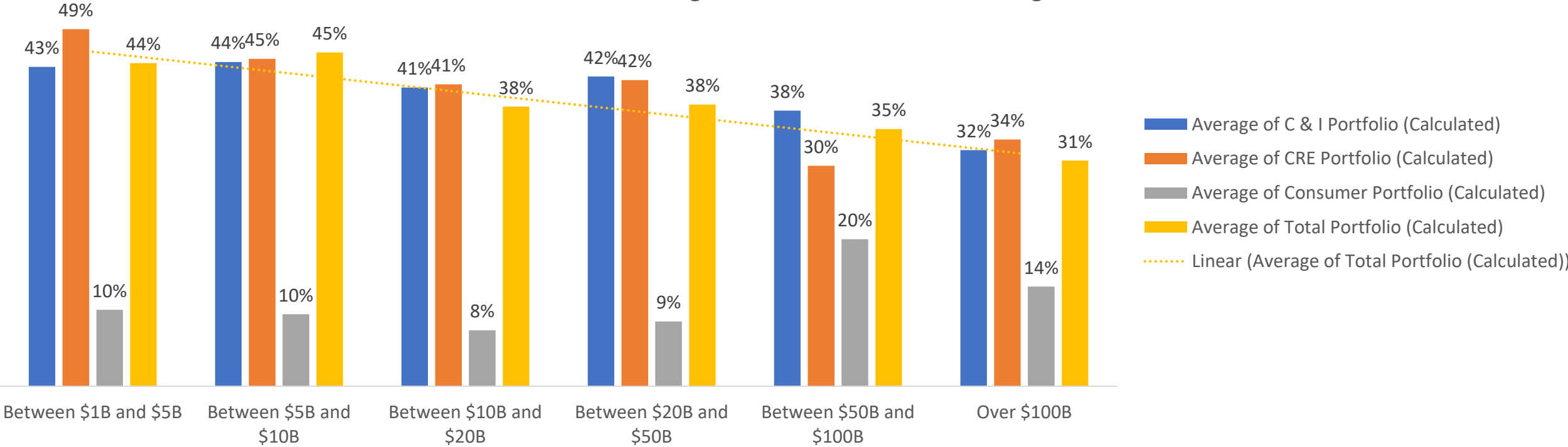


Top 6 Responses, Multiple Selections Allowed

Portfolio Penetration Percentage

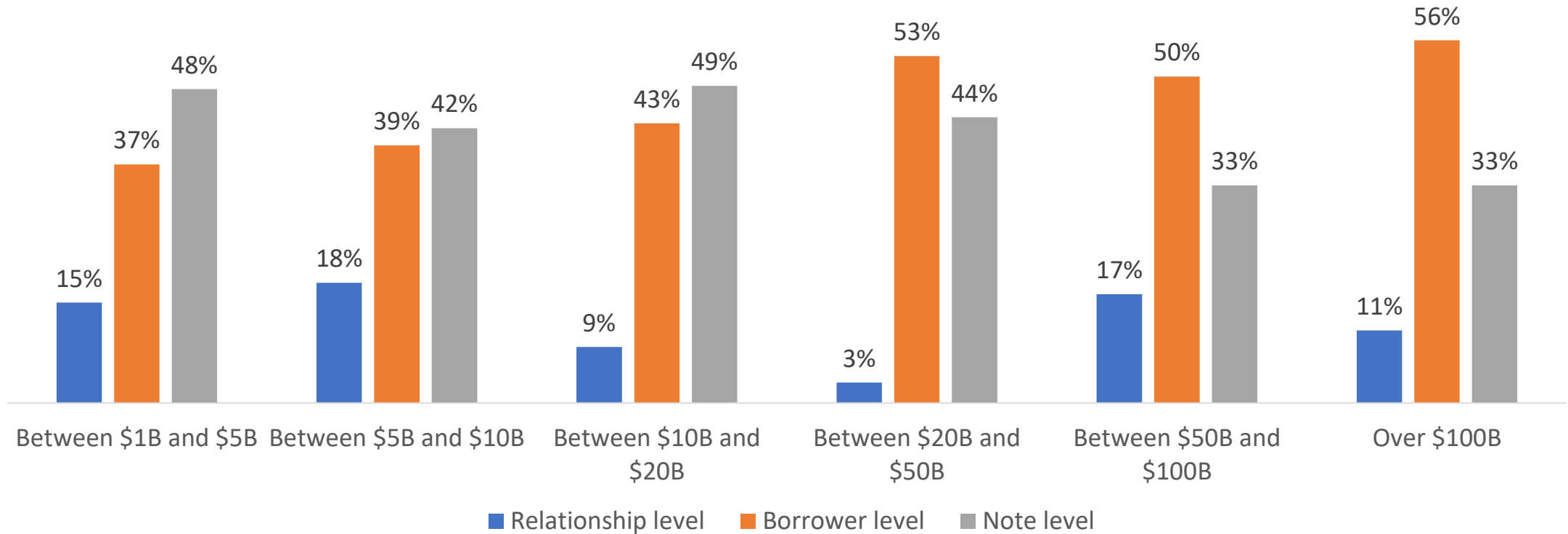
Smaller banks average around 45% while larger banks are closer to 30% total portfolio penetration.

Portfolio Coverage % based on Total Outstandings



At What Level are Exceptions Cited?

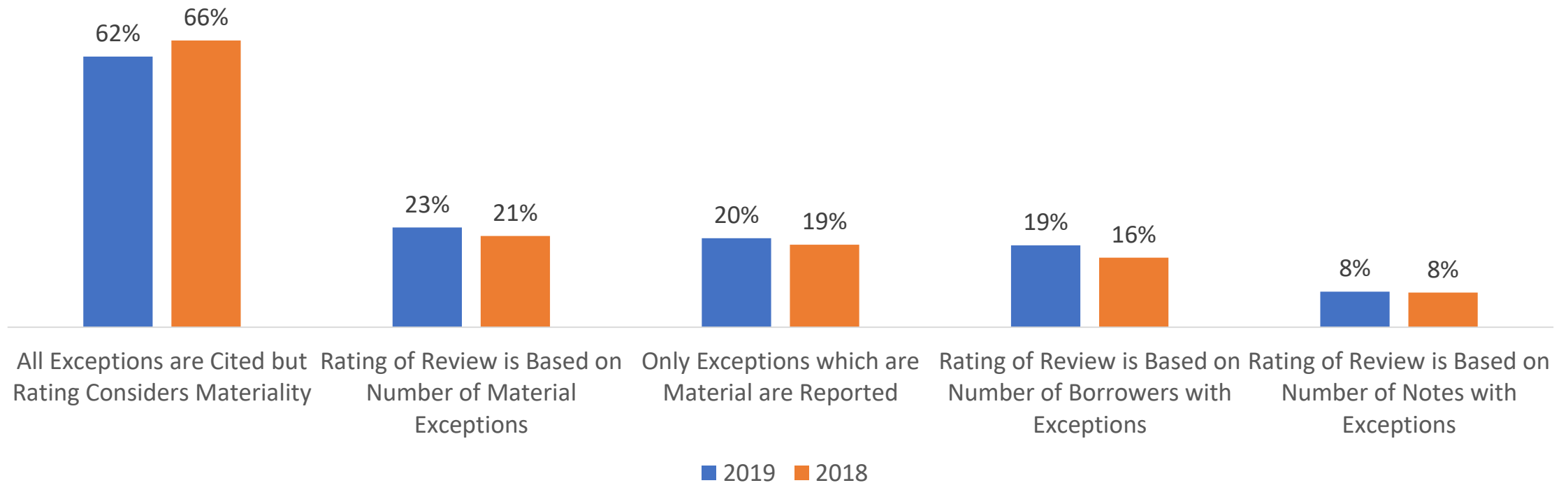
Smaller banks favor the note level, while larger banks favor the borrower level



How do Exceptions Impact a Review Rating?

Reinforcing the results from last 4 years, banks tend to cite all exceptions but rate a review based on the material exceptions only.

How do Exceptions Impact the Rating of a Review

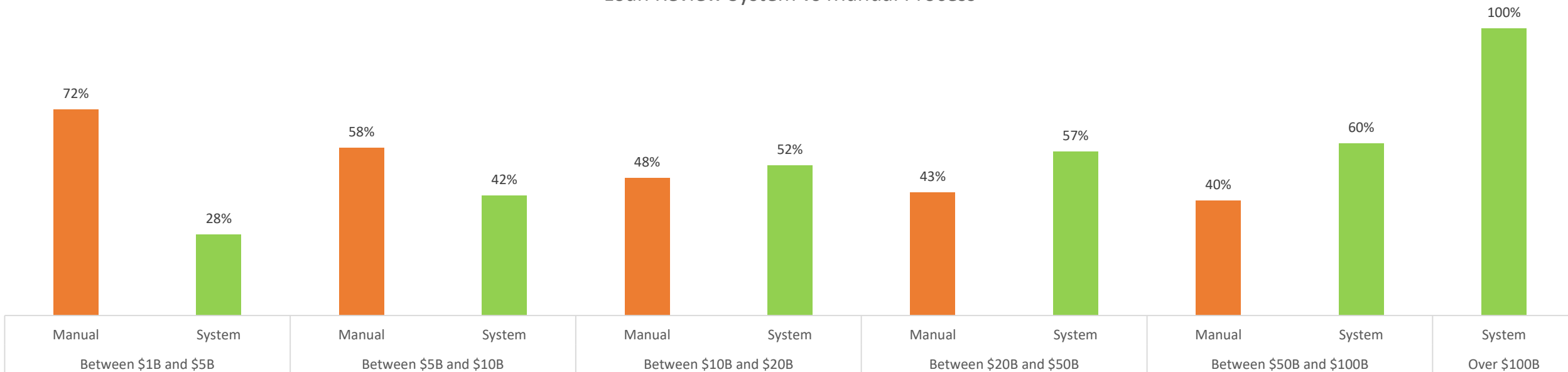


System vs Manual Loan Review Process

Banks < \$10B more likely to still be using Excel and Word

Banks > \$10B more likely to be using a loan review system

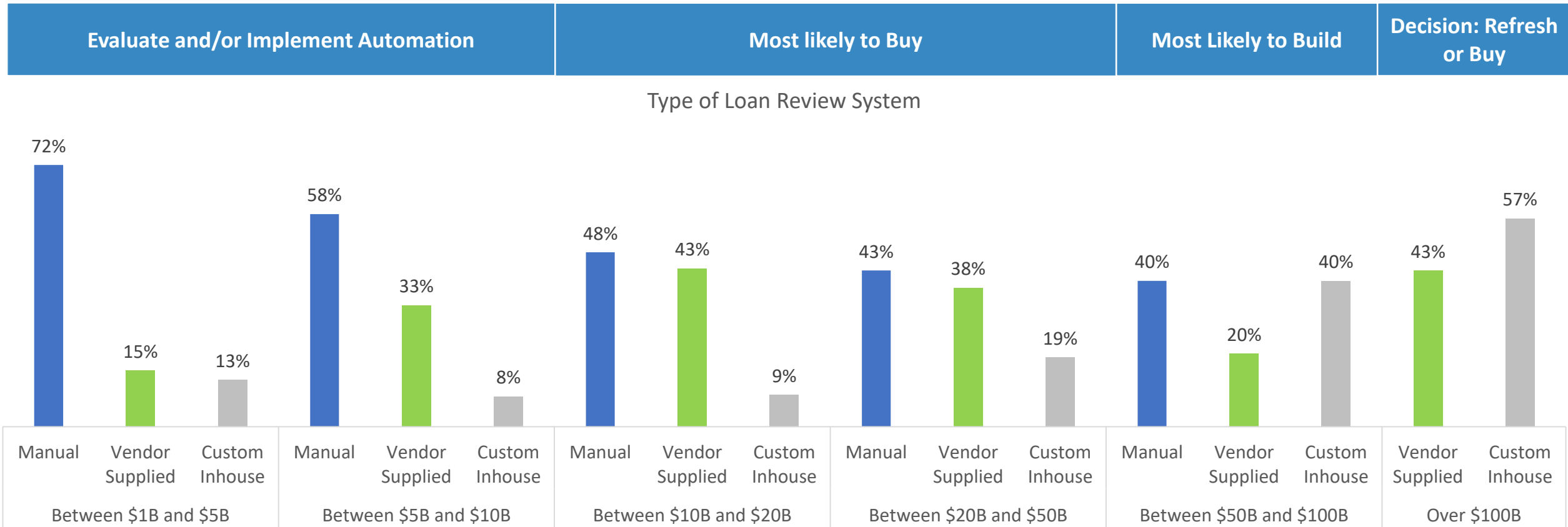
Loan Review System vs Manual Process



Enabling our clients to achieve more through innovative software, passionate customer engagement and industry leadership



Type of Loan Review System



Enabling our clients to achieve more through innovative software, passionate customer engagement and industry leadership



Section Highlights

- All banks > \$1B are more likely to keep the review function inhouse
 - Cost savings is the primary motivator to outsource
- Target portfolio penetration drops as bank size increases
 - Smaller banks are around 45% while larger banks are close to 30%
- The likelihood to utilize manual loan review process trends down as asset size increases
 - All but the largest banks are more likely to buy than build
 - Mega banks either invest in existing custom system or buy a vendor solution

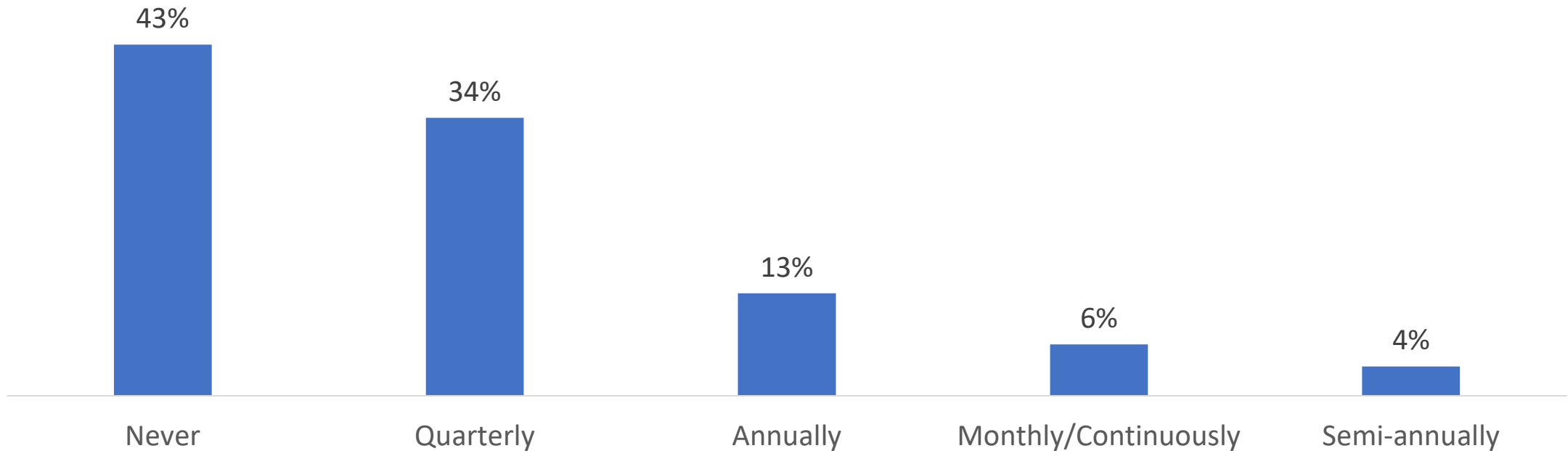


Credit Risk Management Process



ALLL Assessment by Loan Review

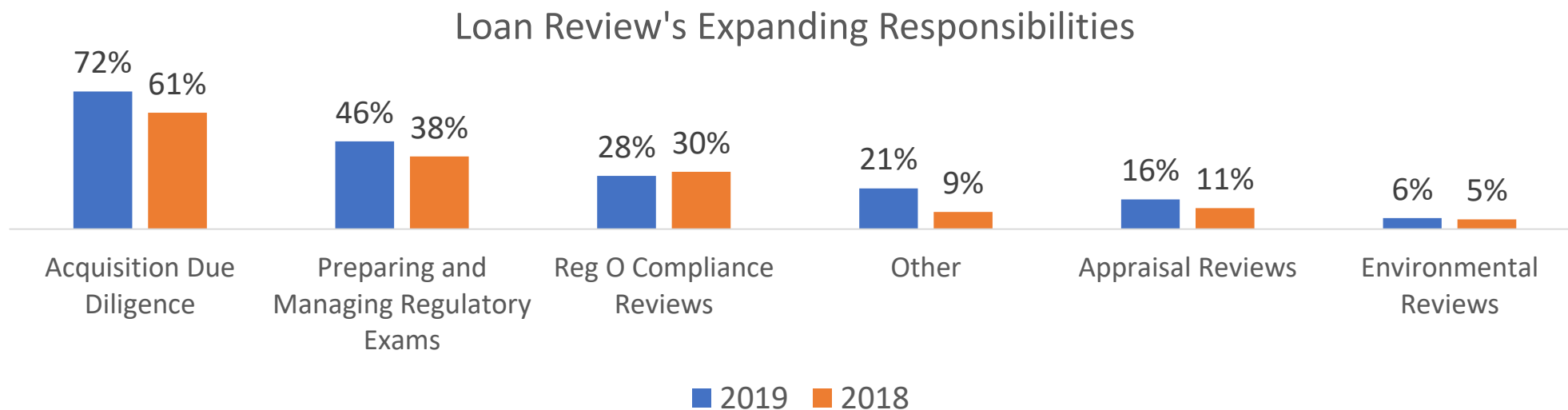
Frequency of ALLL Review by Loan Review Staff





Other Responsibilities of Loan Review

- Primary additional responsibility is Acquisition Due Diligence
- Secondary additional responsibility is Preparing and Managing Regulatory Exams

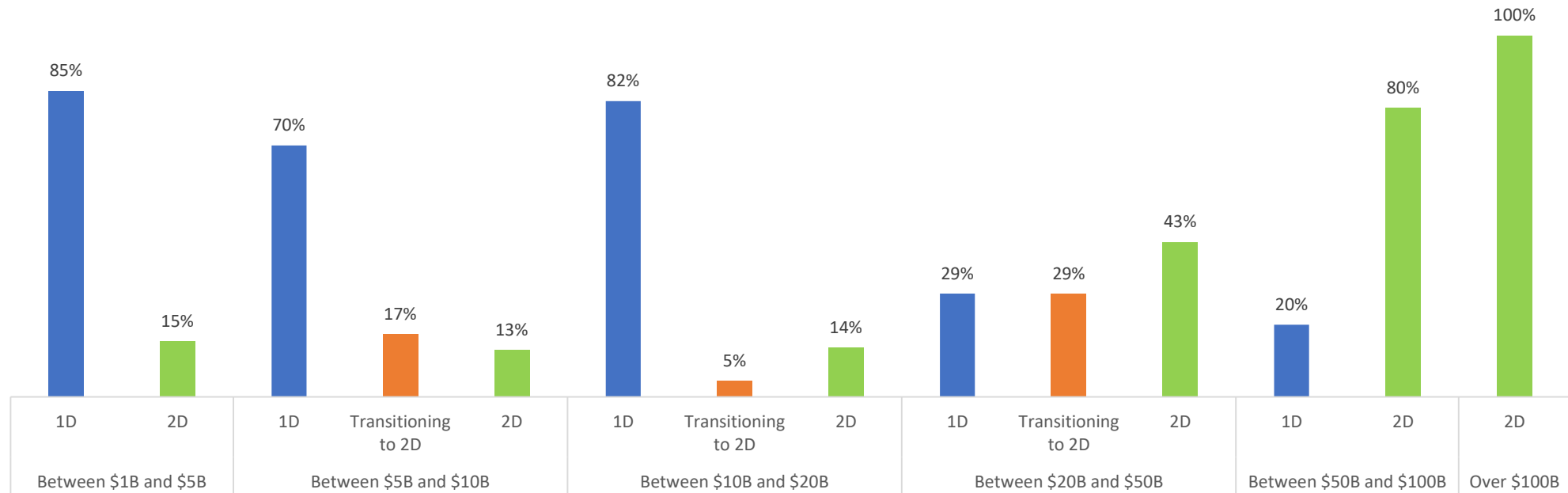


Multiple selections allowed. Percentage based on total respondents.



1D versus 2D Risk Ratings

Usage of 2D Risk Ratings Trend Up as Bank Size Increases

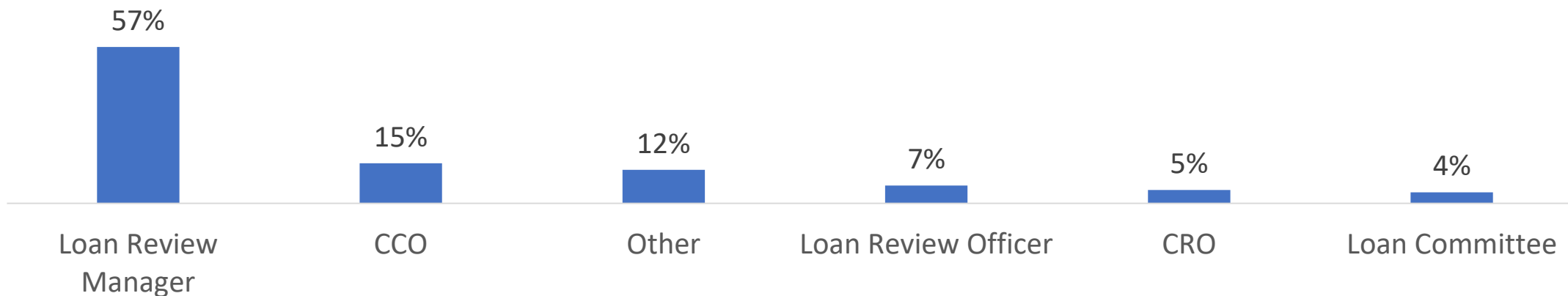




Who Has the Final Say in Loan Grading?

Loan Review Manager consistently has the final say across all bank sizes

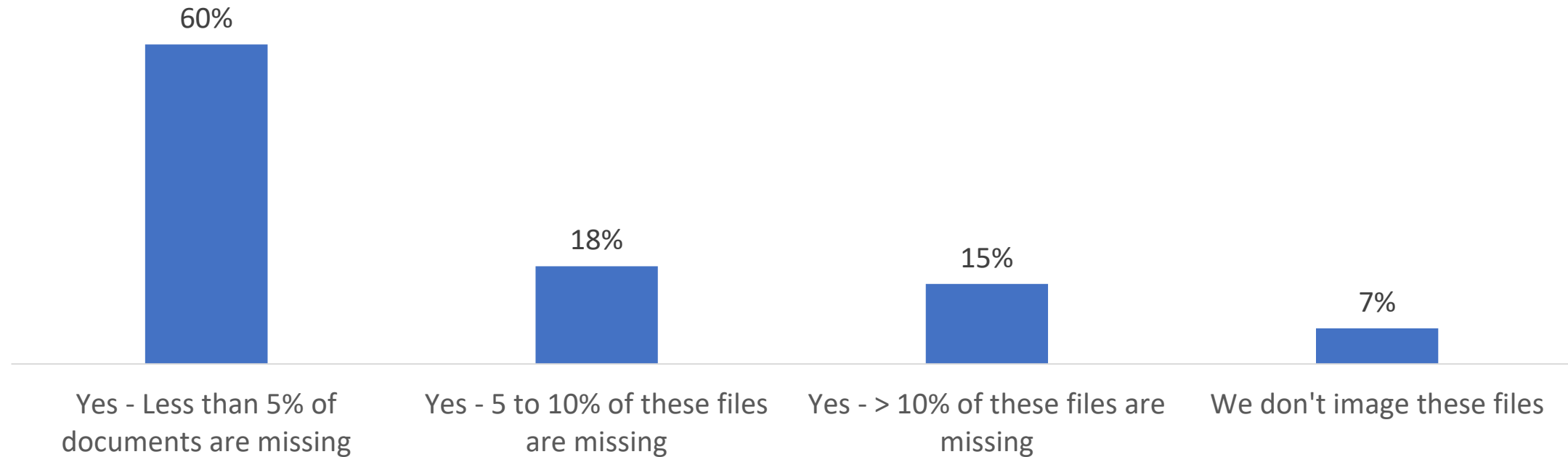
Final Say in Loan Grading Decisions





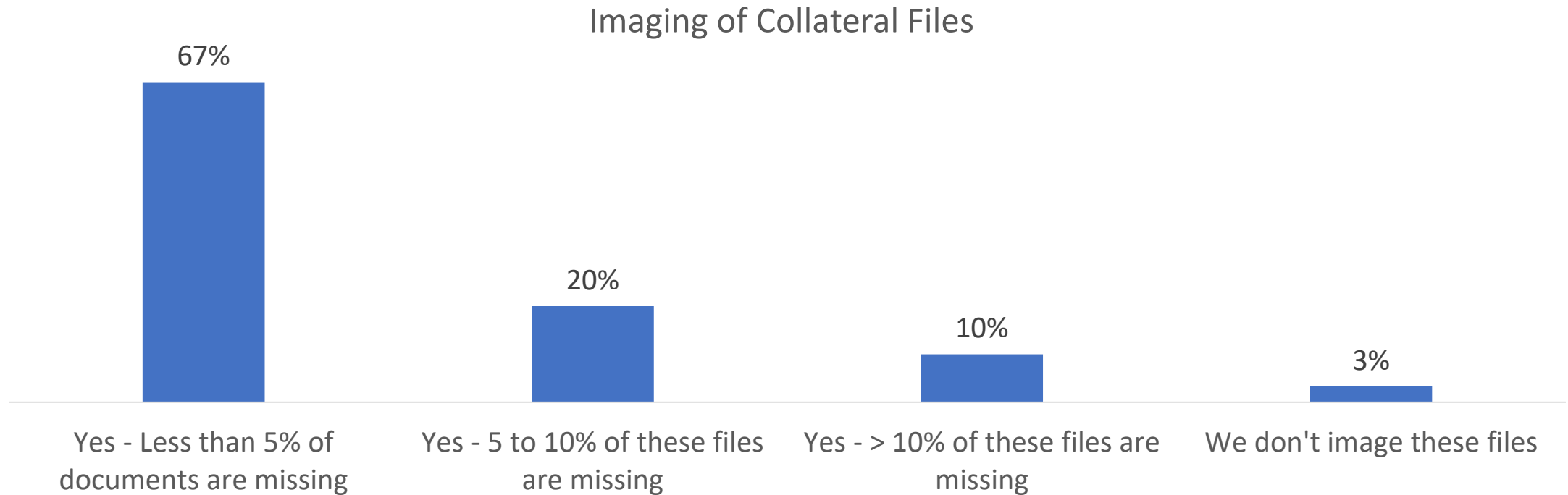
Does your Bank Image Credit Files

Imaging of Credit Files





Does your Bank Image Collateral Files





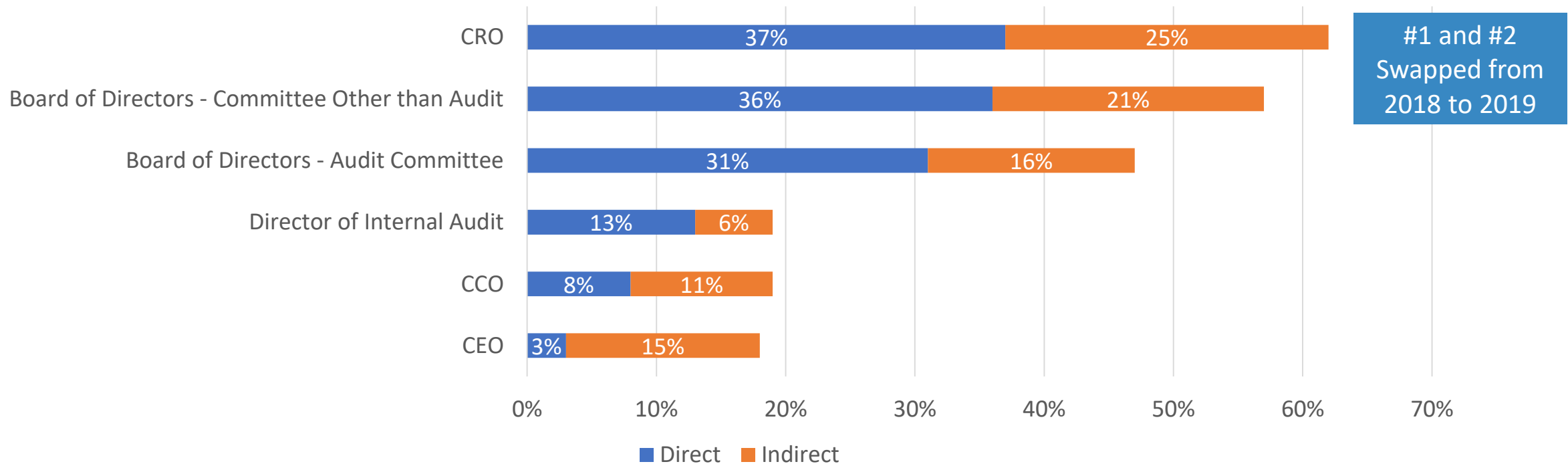
Section Highlights

- Additional Responsibilities of Loan Review
 - Acquisition Due Diligence is a common responsibility
 - Data suggests additional responsibilities are increasing
- 1D Risk Ratings still the norm for banks under \$20B
- The Loan Review Manager usually has the final say in Loan Grading
- Most banks are imaging collateral and credit files and have <5% of the documents missing
- Loan review is involved in accuracy of the ALLL

Reporting and Guidelines

Most Common Reporting Lines

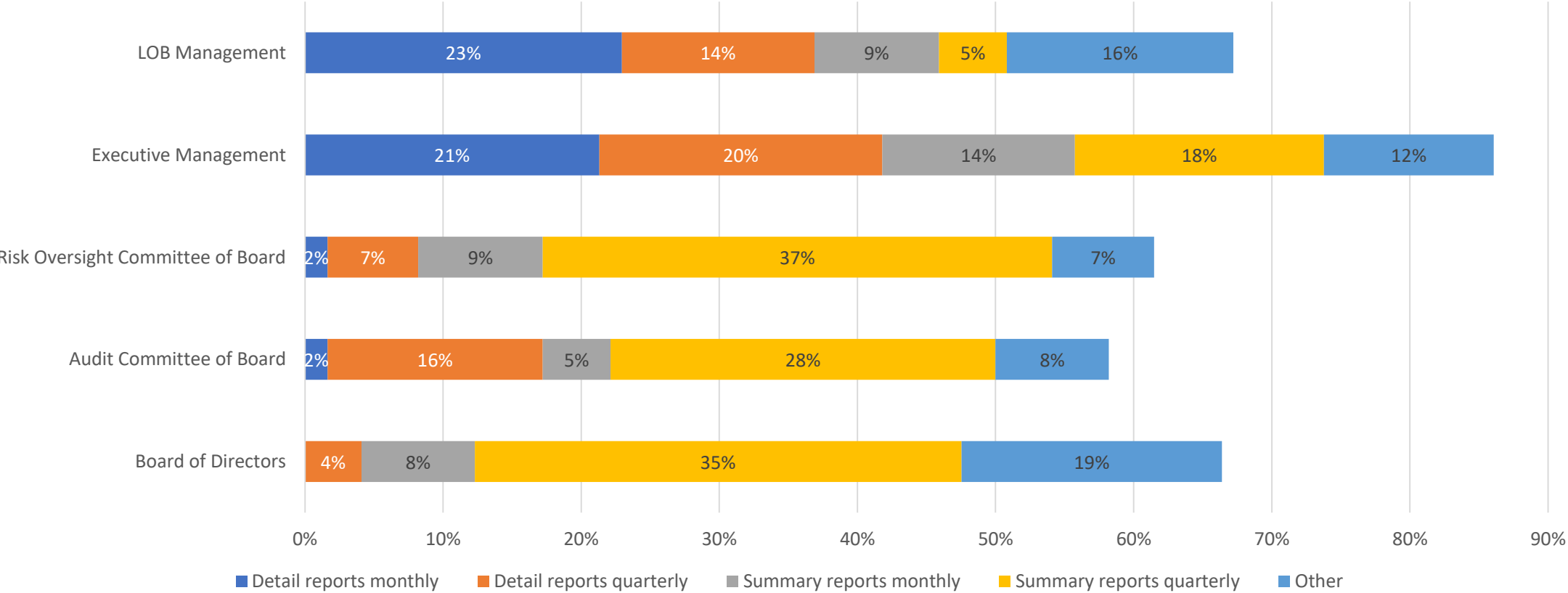
Loan Review Reporting Relationships



Multiple selections allowed

Management Reporting

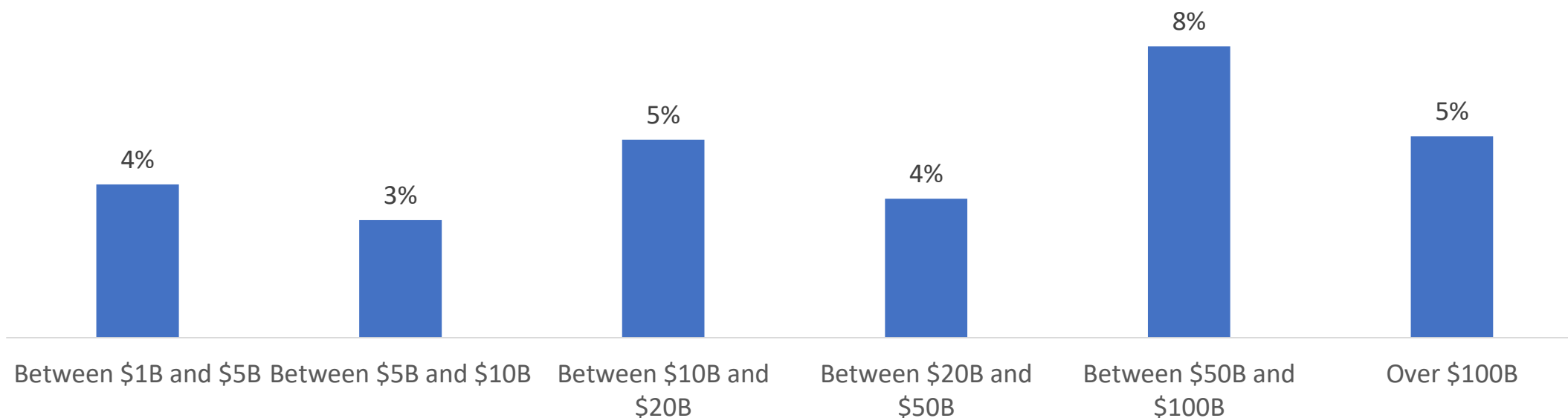
Frequency and Type of Management Reports



Acceptable Level of “Criticized” Loans

Responses suggest a “average” range between 3-5%

Acceptable Level of 'Criticized' Loan Outstandings as a % of Total Loans Considered

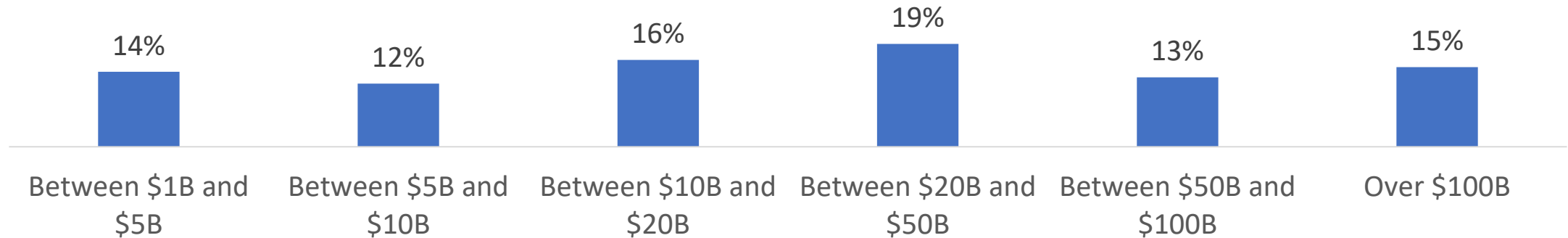


(Criticized Defined as Risk Rating Special Mention or Worse)

Acceptable Level of Adversely Classified Assets as a Percentage of Tier 1 Capital + the ALLL

Responses suggest an average range between 12-19%

Acceptable level of adversely classified assets as a percentage of Tier 1 Capital + the ALLL



(Classified Defined as Risk Rating Substandard or Worse)

Section Highlights

- Most Common Reporting Lines for Loan Review are:
 - Chief Risk Officer
 - Board of Directors – Committee Other than Audit
- Loan Review typically provides detailed reports to Line of Business and Executive Management
- Average acceptable level of Criticized Loans is 3-5%
- Average acceptable level of Classified Loans as a percentage of Tier 1 Capital and the ALLL is approximately 15%

Recurring Themes and Conclusions

- Loan Review Staff are Being Asked to Do More
 - Exposure per reviewer is increasing
 - Penetration percentages are consistent with prior year
 - Additional responsibilities are becoming more common
 - Acquisition due-diligence, portfolio analytics, quarterly risk assessments
- Loan review talent pool is comprised primarily of experienced Sr. staff
 - Attracting new review talent seems to be challenging for banks of all sizes
- Tracking performance metrics is becoming the norm
 - Files per reviewer, per week is the “standard” metric (target 4-6 files)

There is as very real need to optimize loan review (and supporting) processes!

Follow-up Items

- We plan to distribute the full slide deck to participants
- Whitepapers will be distributed by early-Q4
- Stay current, follow us (and DiCOM Software) on LinkedIn!
- Please contact us with any comments or questions



Jim Xander

jxander@DiCOMsoftware.com

Skip Costantine

scostantine@DiCOMsoftware.com

Thank you for your participation!

www.DiCOMsoftware.com